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COMMITTEE ON FINANCE
UNITED STATES SENATE

Lloyd Bentsen, *Chairman*

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PREFACE

In the exercise of its oversight jurisdiction with respect to the reciprocal trade agreements program, the Committee on Finance on July 27, 1987, invited written comment on the negotiations, then in process, of a bilateral free trade area agreement between the United States and Canada. Since Canada is the United States' largest trading partner, the negotiation of the agreement had excited substantial public interest. The Committee, which is charged by the Trade Act of 1974 to consult closely with the Administration on all trade negotiations, wanted to have available to it the comments of interested members of the public concerning the negotiation, both to carry out this continuing duty to consult, as well as to carry out its general responsibility to oversee the operation of United States trade laws. The resulting public comments have been reprinted here for the use of the Committee in carrying out these responsibilities.

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COMMENTS ON THE
U.S.-CANADA FREE TRADE AREA NEGOTIATIONS

BY THE
AD HOC COALITION ON
INTERNATIONAL ELECTRIC POWER TRADE
12800 SHAKER BOULEVARD
CLEVELAND, OHIO 44120-2099

SUMMARY

The Ad Hoc Coalition on International Electric Power Trade suggests that total recovery of the true cost of electric power exported from Canada to the United States is an essential goal in U.S.-Canadian trade negotiations. A successful free trade agreement between Canada and the United States must, therefore, include provisions for two disparities that exist between the two countries with respect to electric power:

1. Canadian Crown corporations, which are the major exporters of electricity to the U.S., receive subsidies which approach the value of the power exported. Typical subsidies include no-cost guarantees of debt obligations, high debt-equity ratios facilitated by government guarantees, freedom from taxation, freedom from profit making requirements, nuclear subsidies, direct grants, and assumption of exchange risk. These subsidies are contrary to U.S. trade laws and must either be eliminated, or included in the invoiced cost of power exported to the U.S. In addition, the United States trade negotiators must refrain from agreeing to changes to U.S. trade laws which would limit the ability of domestic utilities to seek redress against subsidized electric power imports from Canada.

2. Canadian hydro and steam-fired generation plants are subject to environmental regulations which are far less stringent than mandated by law in the U.S. For example, while steam-fired electricity represents almost one-quarter of exported electric power from Canada, there are no scrubbers in place there, while 191 are in place, under construction, or planned in the U.S. Canadian hydro projects fare no better in light of mercury pollution and the displacement of Indian tribes and wildlife herds. Such environmental impacts, of course, are of prime concern in the United States. The effect of such concerns is both ecologic and economic. While the Canadians have announced an ambitious emissions program at the Federal level, their current record and past history of improvements have been poor. Thus, any U.S.-Canada agreement must require that electric power exports to the U.S. be from facilities meeting U.S. environmental standards.

The provisions outlined must be included so that, ultimately, the true economic and environmental costs of exported electricity would be reflected in the invoices of customers, thus fostering a genuinely free and competitive marketplace in this Country.

The Ad Hoc Coalition on International Electric Power Trade appreciates this opportunity to provide its comments with respect to U.S.-Canada free trade negotiations. The Coalition is composed of domestic energy providers, their suppliers, railroads, and interested public officials concerned with the growing threat of unfairly traded Canadian electricity imports.

In addressing the Canadian power issue, the Coalition has held continuing discussions with U.S. trade negotiators Clayton Yeutter and Peter Murphy,[1] as well as staff support personnel, public officials, and Congressional leaders.

The coalition is concerned with two disparities that exist in respect to imported Canadian electric power: subsidies received by Canadian utilities and the lack of equal environmental compliance in Canadian power generation, as compared to the United States.

SUBSIDY ISSUE[2]

There is little question that Canadian Crown corporations, which account for most of the shipments of imported power to the United States, are highly subsidized. There is ample evidence of the foregoing.[3]

The Coalition's study (see footnote 1) has indicated subsidies which, if added to the price of Canadian power, would increase its cost by 100 percent, or more. Subsidies have been identified in the following areas:

A. MAJOR SUBSIDIES

1. No-cost Guarantees of Debt Obligations

All of the major Canadian utilities borrow in financial markets, including the U.S. capital market. Such loans benefit from guarantees of the provincial government in which the utilities reside. Such guarantees are provided without cost. In Manitoba, it was common practice for the province, itself, to do the borrowing for Manitoba Hydro, until only a few years ago.

In all instances, the guarantee of the provincial government confers a very significant subsidy to the rates at which these entities borrow. For example, in the case of Ontario Hydro, the Royal Commission on Electric Power Planning[4] found that the guarantee of the provincial government resulted in changing Ontario Hydro's debt rating from BBB to AAA. It further found that the government guarantee created an interest differential of 1.6 percentage points favoring the utility's borrowing. On the average net borrowing of Ontario Hydro in a given year (e.g., a $1.5 billion series of 30-year bonds), the government guarantee was estimated to be worth approximately $260 million. This example is only one of many, since the outstanding debt of Ontario Hydro at the moment approximates $23 billion, virtually all covered by a government guarantee.

2. High Debt-Equity Ratios

Because of provincial government guarantees of debt, Canadian utilities are able to operate with leverage levels unthinkable for any commercial utility. For example, as shown in recent annual reports, the proportion of debt to total equity at Manitoba Hydro is 94 percent. At Ontario Hydro, it is 86 percent. However, even these high proportions tend to disguise the fact that the Crown corporations were initially financed through levels of 100 percent debt. Thus, the form of equity which appears on their balance sheets does not represent capital investment by shareholders. It has emanated from accumulation of retained earnings over the years and represents, basically, a reserve for future contingencies.

The Royal Commission Report, in commenting on this situation, stated:

> "The present (putative) debt ratio of Ontario Hydro of 0.86 would require roughly a one-third reduction in total debt (in order to be roughly comparable to a private utility). The tripling in accumulated equity that this entails would require additional net income well in excess of the total revenue of $2.5 billion raised in 1979. To maintain a debt ratio of 0.65 would require net income of roughly triple the present level."[5]

In fact, the Royal Commission's analysis may understate the case. As indicated above, Hydro's real capital structure is based on 100 percent debt. Additionally, a typical capital structure for an AAA-rated utility might be 50 percent equity investment, 40 percent debt, and 10 percent preferred, rather than the .65 ratio as described in the example, above. These two items are important in that a substantially greater increase in revenue would be required beyond that projected by the Royal Commission.

3. Freedom From Taxation

Canadian electric utilities pay essentially no taxes at either the Federal, provincial, or municipal levels. Thus, while the combined Canadian Federal and provincial corporate tax rate is 51 percent, Canadian Crown corporations pay nothing. Combined Canadian Federal and provincial sales taxes vary from 14 percent to 17 percent, depending on the province. Canadian utilities pay nothing. Net investments of Ontario Hydro, alone, in the past year were approximately $2.5 billion. A large portion of this investment represents capital goods and purchases subject to sales tax, but the Canadian utilities paid none. The utilities are also exempt from property and other taxes at the municipal level, though, in some cases, the utilities provide services to municipalities as "grants in lieu of taxes". These, however, are minor, and the degree of overall subsidy is self-evident.

4. Profit Status

Canadian utilities are not designed to earn profit and often operate at a loss, or with a profit margin which is far below the level required to attract capital in the commercial marketplace. Manitoba Hydro, for example, operated at a loss in six of the last ten years. Canadian policy statements make it clear that the purpose of Crown corporations is not to earn a profit, but, rather, to deliver electric power at the lowest possible rates. Private electric utilities in the U.S. must earn a profit, or eventually cease to exist.

ANALYSIS

Viewing these subsidies on a conservative basis, it is clear that the revenue requirements of Canadian utilities would require a massive upward adjustment to attract needed capital on commercial terms. For example, Ontario Hydro, which produces more than 25 percent of Canada's electric power and more than 20 percent of its exports, now requires revenues of over $4 billion to cover costs as shown on its books, including operating, plant, and associated debts of almost $18 billion.

To create an equivalent situation to the U.S. utilities, the effect of the cost-free government guarantee would have to be eliminated, and the capital structure reconstructed from 100 percent debt to a capital structure similar to 50 percent equity, 10 percent preferred, and 40 percent debt. Assuming an average 10 percent present cost of debt for Ontario Hydro, the adjustment for these two factors would add at least 2.5 percent per annum to interest costs.

But the resulting adjusted figure of 12.5 percent would not consider taxes. Looking only at income taxes, revenues would have to increase to generate a net figure of 12.5 percent so that the real cost of capital would approach 20 percent -- double the artificial level at which the Crown corporation are permitted to operate. Applied to the $18 billion investment, this would require additional revenues of $1.8 billion per year. This figure does not include exemption from sales tax on equipment purchases. Last year, Ontario Hydro made net new investments of $2.5 billion. If attributing only half of that amount to new equipment, the sales tax of approximately 15 percent (combined Federal and provincial) would result in payment of an additional $187.5 million. The result would be that, instead of requiring revenues of approximately $4 billion, Hydro would require something on the order of $6 billion -- an effective subsidy of at least 50 percent.

However, even these figures grossly understate the real impact of privileged circumstances on the finances of a Crown corporation. One cannot merely look at adjusted revenue requirements for a single year to make appropriate comparisons. Each and every year of operation of Ontario Hydro, for example, has benefited from these factors. If Hydro had been required to finance itself on the above basis for the past 20 years, its overall domestic electricity demand would have been much less, due to price elasticity effects and its power plant construction program greatly reduced, thereby limiting, or even eliminating, energy available for export. Instead, Hydro has been able to accumulate an asset base that is greatly understated for rate base over the last 20 years could conservatively account for a built-in subsidy factor of up to an additional 50 percent.

Not surprisingly, given its subsidized leverage, Ontario Hydro financed a doubling of its asset base from 1980 through 1985. Could any domestic private utility, no matter how financially solid, have done that?

Ontario Hydro is far from an isolated case. Over 95 percent of Canada's electricity output is generated by public entities financed much like Ontario Hydro. By maintaining a subsidized electricity system, Canada has been selling electricity to its domestic customers at roughly half the rates of any other free world country.

B. ADDITIONAL SUBSIDIES

In addition to the four major subsidies, several other subsidies contribute to underpricing Canadian electricity exports:

1. Nuclear Subsidies

Canadian electric power generated from the nuclear stations is also the beneficiary of heavy subsidies, Atomic Energy of Canada, Ltd., another Crown Corporation, develops and builds Canadian nuclear stations. It receives Parliamentary appropriations each year, averaging approximately $350 million in recent years. AECL is also the beneficiary of loans at far less than commercial value and has, on at least one occasion, been the beneficiary of total forgiveness of a "loan" of $1.2 billion. The prices at which the services and facilities of AECL are sold to the provincial utilities represent an important subsidy of their asset base, which has been estimated by one Canadian authority to be worth almost $300 million per year to Ontario Hydro.[6]

2. Assumption of Exchange Risk

Another unusual arrangement is the Manitoba Rate Stabilization Act. When the Canadian dollar dropped sharply, Manitoba Hydro found its effective debt payments sharply increased. In an action which is revealing as to the true nature of the provincial utilities, it simply requested that the provincial government provide a direct subsidy. Under the Act, the province agreed to pay for all "losses" which would have been incurred by Manitoba Hydro on its outstanding debt, because of the strengthening of the U.S. dollar. This subsidy is recognized in the Manitoba Hydro Annual Report for 1985 as $21 million in case, equivalent to a reduction in the fact amount of Manitoba Hydro's debt of approximately $500 million. This subsidy has been a varying, but important, factor for the past several years.

3. Additional Sundry Subsidies

Finally, there are other significant subsidies, including grants, or less than commercial rate loans, for transmission facilities, miniscule or nonexistent water rents for hydropower, conversions of loans to equity (without commercial justification), Federal grants for conservation programs, and Federal and provincial level manpower programs (subsidizing employment on major construction works in the industry). While not quantified, their combined value is significant.

ENVIRONMENTAL

Canadian coal-fired SO_2 emissions increase 54 percent between 1970 and 1984, while, in the U.S., SO_2 emissions decreased 8 percent.

Canada has no scrubbers, The United States as 142, with 49 additional units planned or under construction. These installations are one example of many protections required by more stringent U.S. environmental laws. While it might be suggested that coal-fired generation comprises a relatively small part of Canadian SO_2 generation, in 1985, almost one-quarter of Canada's exported power was coal-fired. Canada's National Energy Board estimates that this percentage will increase to between 29 and 33 percent in the year 2005.

Nor should hydrogeneration be considered pollution-free, as indicated in the Hydro-Quebec's James Bay experience, where massive flooding took place at the expense of mercury contamination and dislocation of Indian tribes and wildlife herds -- flooding that occurred without environmental impact studies as would be required in the United States in advance of such construction.

The disparity between U.S. and Canadian environmental regulations is very great. Producers in the U.S. have suffered huge additional costs of production in attaining high environmental standards. These additional costs have further widened the large differentials which exist due to subsidies received by Crown corporations.

Thus, U.S. producers have suffered the impact of pollution control in two ways: Domestic power producers have had to bear the brunt of Federally mandated additional costs, and, additionally, have had to compete with Canadian exporters who have avoided these costs because they are subject to far less stringent regulations. In the process, because of its low cost and ready availability, U.S. consumers sometimes purchase Canadian power produced under conditions which would be illegal in the U.S.

NATIONAL SECURITY

Foreign electricity imports have created an overdependence upon a commodity of foreign supply, which has been made cheap because of subsidies and the Canadians' failure to adhere to environmental safeguards required in the U.S., thus allowing domestic jobs and national wealth to be transported northward.

The Department of Energy's March, 1987, Security Report to the President and others have described the adverse risk climate pervading the electric power industry in this Country. This climate has led to the deferral of capacity additions and a movement toward potentially high cost oil and gas-fired combined cycle turbine generation. As an alternative, some utilities are opting for long-term agreements for subsidized "low cost" Canadian imported power.

The Canadians, themselves, have stated there are limits to this supply because of growing provincial requirements. Current high percentage requirements in the Eastern industrial and commercial sector of our nation fulfilled by Canadian imports, long lead times associated with alternative generation, questionable reliability, and dependence upon the policies of a foreign nation all suggest that the Nation's security requirements could be better served through domestic generation.

FOOTNOTES

[1] In support of these discussions, the Coalition has provided an extensive position paper, Imports of Canadian Power -- A Growing Concern. detailing the subsidy, environmental, and national security issues inherent in Canadian electric power imports.

[2] A major source of information for this section was Connections, An Energy Strategy For The Future, 1985, The Economic Council of Canada, Chapter 6.

[3] A report in the Winnipeg Free Press, for example, cites a $36.3 million tax subsidy to Manitoba Hydro. In addition, a paper recently presented by a Department of Energy staff member at the Conference of the International Association of Energy Economists in Calgary of this year, The Public and Private Costs of Canadian Power by Jeffrey Skeer, described Crown corporation freedom from taxation compared to a 60 percent increased capital carrying charges due to taxation in the U.S.

[4] Report of the Royal Commission on Electric Power Planning, ol. 5, see Province of Ontario, February, 1980, p.41.

[5] Report of the Royal Commission on Electric Power Planning, Province of Ontario, Vol. V, p.41; see also Connections, Economic Council of Canada, 1985, Chapter 6.

[6] Final Report on Toward a Balanced Electricity System, see Province of Ontario, Select Committee on Energy, Second Session, 33rd Parl., 35 Elizabeth II, Appendix H.

STATEMENT OF THE AD HOC COALITION ON U.S./CANADA TELECOMMUNICATIONS TRADE

This statement is submitted by GTE Corporation, Rockwell International, Inc. and AT&T in response to the Senate Finance Committee's request for public comment on the U.S./Canada Free Trade Area Negotiations, which request was set forth in the committee's press release of July 27, 1987.

AT&T, GTE, and Rockwell International are members of the American Coalition for Trade Expansion with Canada ("ACTE"), a broad-based coalition composed of over 180 major corporations. ACTE is actively working for a comprehensive free trade agreement with Canada which would deal effectively with a wide variety of trade concerns between the two countries. The aforementioned companies support the efforts of ACTE to bring about a free trade agreement that will benefit both the U.S. and Canada.

AT&T, GTE and Rockwell International are major U.S. manufacturers of telecommunications equipment. The companies have formed an informal coalition to seek improved market access for U.S. telecommunications products in Canada. The coalition strongly supports the creation of a U.S./Canada free trade area, and believes that such a free trade area should include telecommunications trade between the two countries. Given the fact that the U.S. had a telecommunications trade deficit with Canada in 1986 of $220 million, we would question the value of any agreement that did not address this important product sector.

Currently, the Canadian telecommunications market is protected by non-tariff barriers as well as high tariffs. For example, the preferential supply agreement between Bell Canada and Northern Telecom, which has been sanctioned by the Canadian Government, is an almost impenetrable non-tariff barrier to U.S. sales of telecommunications equipment in an essential segment of the Canadian market.

In addition, the Canadian telecommunications equipment industry is protected by high tariffs. For example, the Canadian tariff on telephone apparatus is 17.8%. This compares with U.S. tariff charges which range from 4.3% to 8.5%.

Finally, the Canadian government gives preference under federal procurement laws to the Canadian subsidiaries of foreign companies which have "rationalized" their operations and have thus become "Canadianized." Such requirements discriminate against the Canadian subsidiaries of U.S. companies which do not meet the strict rationalization criteria.

The elimination of the aforementioned barriers would enable U.S. firms to compete for a greater share of the Canadian telecommunications market which is estimated to be $2.5 billion in 1987. (Nearly 60% of this potential market represents procurement by Bell Canada.) Moreover, the elimination of such barriers will put U.S. companies on equal competitive footing with their Canadian counterparts. Canadian firms and their U.S. subsidiaries enjoy significant market opportunities in the U.S. due to our non-discriminatory procurement practices, which have long been U.S. government policy. In particular, Northern Telecom, which benefits from the Canadian government's toleration of Bell Canada's preferential procurement policies, had sales in the U.S. of nearly $3 billion in 1986. This was a $700 million increase over 1984 sales of $2.3 billion.

In summary, the coalition supports the creation of a U.S./Canada free trade area. However, any agreement should address the imbalance in competitive opportunities in the telecommunications sector. Specifically, any agreement should contain at least the following provisions on telecommunications:

1. changes in the telecommunications equipment procurement policy of Bell Canada to one of open competitive bidding on a non-discriminatory basis;

2. an equalization of the U.S. and Canadian tariffs on telecommunications equipment; and

3. a change in Canadian requirements for "rationalization" so that all Canadian subsidiaries of United States telecommunications manufacturers qualify as Canadian suppliers for purposes of all "buy-Canada" laws, regulations and practices.

The telecommunications trade problem noted in this statement was discussed in more detail in a paper submitted by the coalition to U.S. Trade Representative Clayton Yeutter on December 13, 1985. A copy of that paper was previously submitted to the Finance Committee.

Air Transport Association **ata** OF AMERICA

1709 New York Avenue, N.W.
Washington, D.C. 20006-5206
Phone (202) 626-4168

WILLIAM F. BOLGER
President

August 13, 1987

Ambassador Peter O. Murphy
Special Negotiator for U.S./Canada
Trade and Investment
Office of the U.S. Trade Representative
600 - 17th Street
Room 501
Washington, D.C. 20506

Dear Mr. Ambassador:

On behalf of the Air Transport Association and its member airlines, I want to thank you very much for taking the time to brief our industry on recent developments in the U.S.-Canada Free Trade talks. It was very helpful to hear your report on the wide range of issues being considered in the talks, the progress which has been made in the negotiation thus far, and the political and economic significance to both countries of an eventual agreement. We appreciate your commitment to keep interested parties in the industry and Congress fully informed.

We also commend your strong commitment and efforts to reach a balanced and fair agreement, in what is obviously a sensitive and difficult negotiation. We support fully our Government's goal: to negotiate a productive, mutually acceptable agreement with Canada.

We can understand your desire, for negotiating purposes, to continue to leave all agenda items on the table at this juncture. However, we are very concerned with this strategy as it may eventually impact the transportation sector. In particular, we feel that, with regard to the civil aviation item, this approach potentially places the U.S. industry in a very precarious position, subject to unknown and possibly abrupt changes in international policy.

We continue to be strongly opposed to inclusion of civil aviation on the agenda of the Free Trade talks with Canada. As you know, we have previously expressed our concerns to the U.S. Trade Representative about the inclusion of aviation in other negotiations on either services or general trade. We wish to reiterate, in the strongest manner, our position that air transport is most properly handled within the traditional civil aviation framework. Unlike many other trade sectors, air transport for more than forty years--in the case of Canada, forty-nine--has been regulated through the negotiation of executive agreements, specifically designed for the exchange of commercial air rights. Moreover, while air transport agreements are negotiated bilaterally, and so by definition are limited in their reach, the United States has over 70 such agreements which, taken together, are inter-related in their precedential impact on each other.

We strongly believe that this traditional negotiation mode continues to be the only appropriate forum in which to discuss significant revisions to the civil aviation relationship with Canada.

To reaffirm the unanimous view of our operator members, the Air Transport Association strongly requests that you not negotiate civil aviation matters with Canada in the context of the Free Trade Agreement.

Sincerely,

William F. Bolger
President

SUBMISSION OF ALUMINUM COMPANY OF AMERICA

ON THE ESTABLISHMENT OF

A FREE TRADE AGREEMENT BETWEEN THE UNITED STATES AND CANADA

SUMMARY

- o Aluminum Company of America (Alcoa) believes the expeditious establishment of a reciprocal free trade agreement between the United States and Canada will lead to significant increases in U.S. aluminum exports.* We have urged the United States Trade Representative in the strongest manner possible to assure that U.S. and Canadian aluminum tariffs are reduced simultaneously for identical products. To reduce U.S. fabricated aluminum tariffs without identical Canadian reductions would be disastrous for U.S. companies.

- o The trade balance in aluminum clearly favors Canada with the 1986 deficit, in volume, in its favor by nearly 1.7 billion pounds. (See attachment 1.)

- o U.S. aluminum producers would benefit from Canadian tariff reductions by realizing increased exports to Canada. Alcoa's exports to Canada could increase by over $30 million by 1990.

- o Alcoa has indicated in previous statements to the Congress, United States Trade Representative and International Trade Commission, that we would like to see all U.S. and Canadian aluminum tariffs reduced or eliminated as a result of a free trade agreement between our two countries. Also, we have indicated previously a priority for five items, the list of which is attached. (See Attachment 2.)

- o We believe that our major competitor in Canada would favor a free trade area, but only if Canadian aluminum tariffs were lowered over a longer period of time. Alcoa disagrees with a "phasing-in" approach. To repeat, Alcoa urges the expeditious -- if not immediate -- and concurrent elimination of U.S. and Canadian aluminum tariffs. Any other method will only benefit Canadian exporters at the expense of U.S. producers.

Aluminum Company of America (Alcoa) appreciates the opportunity to submit these comments on the establishment of a free trade area between the United States and Canada.

Alcoa started the U.S. aluminum industry almost 100 years ago. Today, it has more than 40 U.S. locations employing about 34,000 people, and operates in 14 other countries with an additional 21,000 employees. Its core business -- aluminum -- once required an integrated production system. Typically, a single aluminum company would be involved in mining, refining, smelting and fabricating aluminum and aluminum products. But recently, changing structural conditions have "dis-integrated" aluminum production -- the system is breaking up. During the last two decades, for instance, a growing number of governments have entered the smelting end of the aluminum business as a way to earn hard currency, employ people and restructure their ailing private industries. As a result, primary aluminum, like raw steel, is in oversupply and has been reduced to commodity status -- selling solely on the basis of price. Also, electricity, the critical raw material in the smelting process, is often subsidized by other producing countries.

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*Harmonized System Item Numbers are 7601.10.0000 through 7616.90.0050.

Historically, Alcoa has oriented itself towards the fabrication end of the business. It produces aluminum sheet, plate, castings, forgings and extrusions. In turn, Alcoa sells these products into the worldwide packaging, aerospace and construction industries. Alcoa produces products in the U.S. for our home market, as well as for export, and produces products offshore for sale around the world.

Almost since its beginning, Alcoa has been an importer of raw materials and an exporter of aluminum in various forms. It has had a great deal of experience in world trade over the years. Given this experience, Alcoa believes that free trade is the most efficient and productive environment within which to conduct commerce between nations.

Unfortunately, free trade is an anachronism in all but a handful of countries. Realism has forced those companies who believe in free trade to plead instead for fair trade. But even fair trade concepts are under attack in many places, and Alcoa is becoming increasingly pessimistic about its ability to avoid the economic disaster that will surely be carried along with the tide of protectionism that is sweeping the world.

DISCUSSION

Alcoa endorses the expeditious establishment of free trade in aluminum between the United States and Canada. Alcoa supports the immediate and concurrent elimination of all U.S. and Canadian aluminum duties. U.S. aluminum producers would benefit from these tariff eliminations by realizing increased exports to Canada. High administrative costs, paperwork burdens and brokers' fees associated with the current tariff system would be eliminated if U.S. and Canadian tariffs were equalized at zero. Further, no harm would result for Canadian companies if a free trade arrangement on all aluminum products could be achieved.

Currently, the trade balance in aluminum is clearly in favor of Canada. In 1986, Canadian exports of the most widely traded aluminum products to the United States totaled almost 2.1 billion pounds. Concurrently, U.S. aluminum exports to Canada of the same products reached approximately 355 million pounds. Thus, in 1986 alone, the deficit in favor of Canadian aluminum producers equaled almost 1.7 billion pounds. (See Attachment 1.)

EXPORT POTENTIAL

It is difficult to determine the extent to which U.S. exports or imports of aluminum products would increase under a free trade arrangement between the United States and Canada. Historically, Alcoa's ability to penetrate the Canadian market has been restricted by our need and desire to be a profitable enterprise. In particular, higher existing Canadian duties restrict our ability to supply fabricated metal at competitive prices. However, Alcoa has no reluctance in stating that U.S. exports alone to Canada would increase. Alcoa's conservative estimates are that by 1990, its exports to Canada would increase by about $30 million if tariffs were lowered simultaneously to zero.

GOAL

We believe that our major competitor in Canada would favor a free trade area, but only if Canadian aluminum tariffs were lowered over some undefined period of time while lowering U.S. tariffs immediately. Alcoa disagrees with such an unfair "phasing-in" approach. Alcoa urges the expeditious -- if not immediate -- and concurrent elimination of both U.S. and Canadian aluminum tariffs. Any other method will only benefit Canadian exporters at the expense of U.S. producers.

CONCLUSION

During many past international trade negotiations, Alcoa's products and those of the U.S. aluminum industry have been used as "trade-offs" for products in other manufacturing sectors. We do not desire the same result again. Worldwide changes in our industry that have affected the economic viability of the U.S. members of the industry do not permit this approach. The achievement of trade equality is our goal just as it has been since the Kennedy Round. We encourage actions to achieve immediate aluminum trade equality with Canada on a sectoral basis and are willing to cooperate in any possible way to achieve this goal.

ATTACHMENT 1

U.S.-Canada Aluminum Trade -- Ingot and Semifabricated Products

(in millions of pounds)

Year	U.S. Exports to Canada	U.S. Imports from Canada	U.S. Deficit
1982	313	981	668
1983	255	1,322	1,067
1984	334	1,490	1,156
1985	365	1,607	1,242
1986	355	2,054	1,699

ATTACHMENT 2

Regarding the establishment of a U.S.-Canada Free Trade Agreement and its relationship to aluminum, all aluminum tariffs between the two countries should be eliminated expeditiously and simultaneously. The products (in order of priority) which should have their tariffs eliminated immediately are:

CANADIAN TARIFF ITEM	DESCRIPTION
35400-1	"Manufacturers of aluminum, not otherwise provided for." (Note: Current Canadian tariff is 10.2% *ad. val.* while U.S. tariff is 3% *ad. val.* U.S. exports include coated, painted and annodized rigid container sheet for can end stock)
35306-1	"Aluminum leaf, or foil, up to 0.005 inches thick." (Note: Current Canadian duty is 9.2% *ad. val.* while U.S. duty is 5.8% *ad. val.*)
35302-1	"Aluminum bars, strips, circles and rectangles" (Note: Canadian tariff is 2.1% *ad. val.* while U.S. tariff is 3.0% *ad. val.* This category includes many sheet and extruded products of which U.S. producers are highly competitive)
43829-1	Forged truck wheels (Note: Current Canadian tariff is 9.2% *ad. val.* while U.S. tariff is 3.1%. This would affect wheels for the replacement market. Original equipment wheels are covered under a separate agreement)
35303-1	Aluminum angles, beams and other sections and shapes (Note: Canadian tariff is 8% *ad. val.* while U.S. tariff is 5% *ad. val.*)

0334D

Amana Refrigeration, Inc
Amana IA 52204

319 622 5611
FAX 319 622 2180

Amana
A Raytheon Company

STATEMENT OF AMANA REFRIGERATION, INC.

to the

SENATE FINANCE COMMITTEE

AUGUST 17, 1987

Amana Refrigeration, Inc., a subsidiary of Raytheon Company, Lexington, Massachusetts, is a manufacturer of major appliances, central air conditioning and heating equipment and commercial microwave ovens. Headquartered in Amana, Iowa, with manufacturing facilities both in Amana and in Fayetteville, Tennessee, Amana sells products throughout the United States, Canada, and more than 100 countries worldwide. Amana's major appliance line includes refrigerators, freezers, Radarange® microwave ovens, room air conditioners, electric ranges and cooktops, clothes washers and dryers, wall ovens, and dehumidifiers. Amana also sells a full line of residential gas and electric furnaces, central air conditioning systems, and heat pumps. Amana also manufactures Radarange microwave ovens designed specifically for commercial food service applications such as restaurants, cafeterias and convenience stores.

Amana Refrigeration strongly supports a free trade agreement between the United States and Canada. The removal of tariff barriers will help expand the Canadian market for U.S. manufacturers such as Amana and will hold important benefits for Canadian consumers.

Amana appliances have been sold in Canada for well over 30 years. With their strong reputation for quality, energy efficiency and innovation, these appliances have enjoyed popularity. However, demand has typically been restricted to small groups of extremely upscale consumers, because high retail prices resulting from substantial import tariffs have discouraged sales in the mainstream of Canadian consumer markets.

The removal of tariffs would obviously help "level the field" of competition in the Canadian market for the mutual benefit of American manufacturers, such as Amana, and the Canadian consumer. The Canadian market has repeatedly demonstrated its compatibility in many areas with that of the United States; major appliances are no exception. Canada holds forth great sales potential for appliance manufacturers. Given the opportunity to compete free of the significant price hobbles imposed by the present tariffs, Amana estimates potential sales increases in the order of 25 to 30 percent in Canada.

Such increases can translate into stepped up production, greater economies of scale, and improved manufacturing efficiencies. The beneficiaries of these efficiencies would be consumers on both sides of the border.

Canadian consumers would further enjoy benefits resulting from increased selection and better pricing for innovative, "demand brand" appliances. Microwave ovens offer a clear example of the benefits possible for Canadian consumers.

Following Amana's introduction of the world's first 115-volt, countertop microwave oven in 1967, the company continued to develop innovative microwave ovens. These innovations included: the 1975 introduction of the first microwave oven with microprocessor (touch-type) controls, unveiling in 1979 one of the market's first microwave-convection combination ovens, and the production in 1984 of a highly sophisticated oven that could weigh food and automatically calculate microwave cooking times and power levels. Sales of each of these products were stymied in Canada due substantially to artificially high retail prices resulting from tariffs imposed under Canadian trade policies.

As demonstrated by the microwave oven history, Canadian consumers are deprived of state-of-the-art innovations. Furthermore, innovative manufacturers such as Amana are denied adequate access to a major market, the sales from which can help support further product research, development and innovation.

Amana believes that the negotiations with Canada represent a historic opportunity to progress to a trading system appropriate between two technologically sophisticated, and economically strong countries. Free trade, though no doubt complex in the short run, holds important long term advantages for both countries. Amana, other United States appliance manufacturers, their employees and suppliers stand to benefit, as do millions of Canadian consumers. The governments of these two great nations must not let this opportunity pass without successfully establishing a reasonable and equitable trade policy granting each free acess to the major markets in North America.

For further information:

Michael A. Humbert
Manager - Corporate Affairs
Amana Refrigeration, Inc.
Amana, Iowa 52204
(319) 622-2174

Statement of
AMAX Inc.
on
U.S.-Canada Free Trade Negotiations

Summary

AMAX Inc., a diversified minerals and energy development company with worldwide operations, supports the concept of a comprehensive U.S.-Canada free trade agreement.

AMAX currently has facilities in Canada (aluminum, gold, molybdenum, tungsten and zinc), as well as interests in properties that are in the exploration or early development stages.

If a free trade agreement is reached with Canada, there is need for a transition period in some mineral sectors which are import-sensitive. The U. S. market for mineral products is substantially larger than its Canadian counterpart, and immediate duty reductions would therefore disproportionately benefit Canada and adversely impact U. S. mineral production and employment.

AMAX Inc. is a diversified minerals and energy development company with worldwide operations. The company explores for, mines, refines and sells a variety of minerals and metals and is the third largest coal producer in this country. AMAX's principal products are aluminum, coal, gold and molybdenum. The company is also involved in the exploration for and production of oil and natural gas. Other businesses in which the company participates include silver, tungsten, magnesium and zinc.

AMAX supports a comprehensive U.S.-Canada free trade agreement. We believe an open trading system between our two countries, with as few government constraints as possible, is in the long-term best interests of both our company and the U. S. economy.

AMAX currently has a number of operating facilities in Canada, as well as interests in undeveloped Canadian mineral properties:

Alumax Inc., a wholly owned subsidiary of AMAX, has a 24.95 percent interest in a new energy-efficient primary aluminum reduction plant in Becancour, Quebec.

AMAX Gold Inc., an 87 percent owned subsidiary of AMAX, holds a 40 percent interest in Canamax Resources Inc., a Canadian mining and exploration company specializing in gold. Canamax is engaged in the mining of gold ore from the Bell Creek mine in northern Ontario, and in the exploration and early development of other gold-bearing properties in Canada. Canamax is also engaged in the exploration and preparation of feasibility studies concerning possible development of base metals and potash properties in western Canada.

Another subsidiary, Canada Tungsten Mining Corporation Limited, a Canadian corporation in which AMAX has a 57 percent interest, owns a scheelite (calcium tungstate) mine located in the Northwest Territories and has a long-term leasehold interest over AMAX's ammonium paratungstate plant at Fort Madison, Iowa. It also owns the MacTung tungsten project located near the MacMillan Pass on the Yukon-Northwest Territories border.

AMAX is the leading producer of molybdenum in the world, with three primary molybdenum mines, including the open pit Kitsault mine on the west coast of British Columbia. AMAX also has a 36.6 percent interest in a zinc mine and mill in Newfoundland.

As a U. S. company that is already committed to doing business with Canada, we feel that a free trade arrangement would even further expand our markets and improve our competitiveness in the international minerals industry.

There is need for a transition period in some mineral sectors where the U. S. market is substantially larger than its Canadian counterpart and immediate free trade would therefore disproportionately benefit Canada and adversely impact U. S. production and employment. Because Canada is a net exporter of most mineral products, the U. S. should not agree to immediate duty reductions on import-sensitive commodities. The domestic mining industry is also very concerned about the trade ramifications of the many benefits that Canadian mineral producers get from regional development assistance programs operated by their federal and provincial governments.

Until we know more precisely what the U. S. negotiators will be able to bring to the Congress for approval, we cannot make a final judgment as to whether the proposed pact will be of overall benefit to our company, its shareholders and employees. We do, however, support the concept of a free flow of goods, services and investments between our country and Canada, and we appreciate this opportunity to express our views.

STATEMENT OF THE AMERICAN BUSINESS CONFERENCE REGARDING THE UNITED STATES - CANADA FREE TRADE NEGOTIATIONS

The American Business Conference (ABC), a coalition of one hundred mid-size, high growth companies, welcomes the opportunity afforded by the Senate Finance Committee to comment on the current U.S. - Canada free trade negotiations.

In a recent survey of ABC chief executives, forty percent of those responding reported that successful completion of trade negotiations with Canada is important to their current or future business plans. Beyond this core group, we believe that a number of ABC companies that have never previously considered trade with Canada to any significant degree would do so absent long-standing impediments to trade between the two countries. Accordingly, the American Business Conference has been actively involved in urging support for successful completion of a fair trade agreement. To that end, ABC joined in founding the American Coalition for Trade Expansion with Canada (ACTE/CAN).

Since the formation of ACTE/CAN was announced on June 8, 1987, membership in the coalition has grown to include over 400 companies and trade associations. Coalition membership is representative of the American economy as a whole. It includes large multinational firms with a long-standing commitment to free trade such as American Express and IBM, mid-size firms including those of the ABC, and smaller companies, such as those represented by the National Federation of Independent Business.

The ability of ACTE/CAN to gain so extensive and varied a membership in so short a period of time refutes the notion occasionally heard in Washington that American business has "nothing to gain" from successful trade negotiations with Canada. No other trade initiative currently pending -- including legislation designed to deal with the nation's trade woes -- can claim the same breadth of support from the business community.

The urgency with which many in the business world regard the Canadian negotiations has not been adequately communicated to policymakers and to the public at large. So overwhelming in the current national dialogue on trade and competitiveness has been our relationship with Japan and, to a lesser extent, the Common Market that most Americans have simply overlooked the huge stake this country has in its trade with Canada. Consider the following illustrative points:

- Canada represents 26 percent of the world market for U.S. manufacturers.
- The United States exports twice as much to Canada as it does to Japan.
- The province of Ontario alone accounts for more purchases of American manufactured goods than any country in the world.
- Thirty percent of all U.S. direct investment abroad is in Canada.

What is extraordinary about the trade relationship between the United States and Canada is not its vitality but rather the extent to which it has been taken for granted. In part, of course, this is the happy result of the peace and cooperation that has characterized the relations between the two countries, best symbolized perhaps, by their common border which, while longer than that between the Soviet Union and China, is virtually unguarded.

But in today's world, we no longer can take our trade relationship for granted. A worldwide movement toward protectionism threatens even the most productive trade partnerships. Moreover, despite profound affinities between the United States and Canada, important cultural and political differences exist as well. Some of these differences have retarded growth in trade and investment between the two countries and ought to be addressed in negotiation before they lead to greater resentments.

No one, of course, can predict what sort of agreement will emerge from the current talks. It is our understanding that considerable progress is being made on the reduction of tariff barriers and burdensome customs regulations. These issues may seem prosaic to some. Yet their presence often is enough to dissuade small and medium size companies from penetrating foreign markets either because tariffs make a commitment to foreign markets prohibitively expensive or because small and medium size firms simply lack sufficient staff to handle routinely the problems accompanying excessive trade-related regulations. Elimination of these barriers to export expansion ought to be at the core of any final agreement.

If a trade agreement between the United States and Canada is consummated, it must be done so by the end of the year. No other trade issue under discussion in 1987 holds nearly as much promise. Beyond broadening the already great benefits of trade between the United States and Canada, these negotiations are in a very real sense a test of the utility of negotiations as a tool for improving world trade. If two nations that have so much to gain from an agreement cannot reach common ground, there would seem little reason to expect much from the next multilateral trade round under the General Agreement on Tariffs and Trade (GATT).

Some members of Congress, in tandem with their counterparts on the other side of the border, have voiced concern about the details of a final trade agreement between the United States and Canada. Some of those concerns are legitimate and must be met. The danger is that we shall use those concerns to mitigate our support for the negotiating process; in other words, that we shall scuttle an agreement before one actually emerges for consideration by both nations. This would be a mistake. Our negotiators deserve full support. By lending them that support and by demonstrating to the world an American commitment to the reducing trade barriers through negotiation, we cannot help but make the position of the United States at the negotiating table all the stronger.

AMERICAN COALITION FOR TRADE EXPANSION WITH CANADA
STEERING COMMITTEE MEMBERS

American Business Conference
American Express
Archer Daniels Midland
AT&T
B.F. Goodrich
Dow Chemical
Gulf & Western
H.J. Heinz
Honeywell
IBM
Merch & Company
Metropolitan Life
National Association of Manufacturers
National Federation of Independent Business
Procter & Gamble
RJR Nabisco
Sears Roebuck & Company

August 13, 1987
6014 Cricket Creek Road
Cherryville, NC 28021

The Honorable Lloyd M. Bentsen
Chairman
Committee on Finance
United States Senate
205 Sena~~te Dir~~ksen Office Building
Washington, DC 20510

Dear Mr. Chairman:

This letter on behalf of the American Coalition for Trade Expansion with Canada is in response to the recent request of your committee for comments on the U.S.- Canada free trade area negotiations. As a private U. S. citizen and an employee of a large U. S. trucking firm, I support the efforts of ACTE/CAN. I believe that a comprehensive agreement with Canada to remove all trade barriers will serve to strengthen the U. S. economy and better enable us to compete in the world market place in the years ahead. I believe that such an agreement will increase economic growth, lower prices for the individual consumer and improve economic efficiency in both countries.

I believe it imperative that every thing possible be done to reach a equitable agreement with America's largest international trading partner. Even though the largest part of trade between Canada and the U. S. is already duty free, the removal of the remaining tariff and nontariff barriers I believe would be significant to both our countries. Top economist have already projected that major growth for the U. S. economy would be the result of a trade agreement. I believe that a bilateral agreement would have a most positive effect that would go beyond trade between the U. S. and Canada at a time when both business leaders and government officials are concerned about the ability of our country to compete internationally, a bilateral agreement with Canada would be the best way to assure that the U.S. becomes more competitive in other world markets. In recent years, trading across the border because of bilaterial trade tensions involving a number of different products has created greater uncertainty for business in both Canada and the U. S. I believe a bilateral trade agreement would clarify the rules so that these disputes, should they occur in the future, could be resolved before becoming a political football.

In short, as an American Citizen and businessman I support a quick and lasting bilateral trade agreement between the U. S. and Canada. I believe that it will provide long term economic security to America's businesses and citizens.

Sincerely,

R. Ray Horsley

R. Ray Horsley

RRH/jph

AMERICAN COALITION FOR TRADE EXPANSION WITH CANADA
1317 F STREET, N.W., SUITE 600, WASHINGTON, D.C. 20004
(202) 638-2121
(ACTE/CAN)

GAIL HARRISON, EXECUTIVE DIRECTOR
BRUCE WOLPE, STAFF COORDINATOR
SHERYL J. WILKERSON, STAFF COORDINATOR

August 17, 1987

The Honorable Lloyd M. Bentsen
Chairman
Committee on Finance
United States Senate
205 Senate Dirksen Office Bldg.
Washington, D.C. 20510

Dear Mr. Chairman:

This letter, on behalf of the American Coalition for Trade Expansion with Canada (ACTE/CAN), is in response to the request of your Committee for comments on the U.S.-Canada free trade area negotiations.

Simply stated, ACTE/CAN favors the conclusion of a comprehensive free trade arrangement covering trade in goods and services, investment, and the protection of intellectual property. ACTE/CAN will, of course, want the opportunity to review carefully the text of any agreement arrived at and comment further and specifically at that time.

Introduction

The American Coalition for Trade Expansion with Canada (ACTE/CAN) is a diverse group of American businesses and trade associations representing over 450 firms from various sectors and regions of the country formed in support of a comprehensive trade agreement with Canada. ACTE/CAN is directed by a Steering Committee which consists of major U.S. firms representing the manufacturing, agricultural, high tech, financial services and other sectors. The members of ACTE/CAN and its Steering Committee are listed in the appendix attached hereto. Also appended is the statement of principles which govern ACTE/CAN's objectives and policy. The diversity of ACTE/CAN's membership is a testament to the importance its members attach to improving and expanding our trade relationship with Canada. While the members have different issues of concern, which they may represent to you separately, they all share a common committtment to a trade agreement that is fair and beneficial to U.S. interests.

ACTE/CAN believes that a comprehensive agreement with Canada to remove trade barriers will strengthen the American economy and better enable us to compete in the global marketplace in the coming years. A fair and equitable agreement will create opportunities for jobs, increased economic growth, lower prices for consumers and improved economic efficiency. America's international competitive position will be strengthened and, together with Canada, we can set an example of the benefits that can come from negotiating similar multilateral agreements under GATT.

ACTE/CAN is committed to support the efforts of the U.S. negotiators to use their best efforts to structure an agreement (fair to both the United States and Canada) which covers the broadest range of issues and sectors and which achieves the freest possible conditions for trade in goods and services, for investment, and for the protection of intellectual property.

Importance of Trade with Canada

ACTE/CAN supports the concept of a free trade agreement with Canada for many reasons. The negotiations offer the opportunity to further expand trade with Canada, already our largest trading partner. In 1986, the flow of goods between the two countries amounted to $124.5 billion.

ACTE/CAN members are keenly aware of the importance of trade with Canada despite public attention that has recently focused on U.S. trade problems elsewhere. Canada's size, convenience, and compatibility has resulted in significant trade between the two countries. To put the relationship in perspective, the United States exports over twice as many goods to Canada than it does to Japan. In 1986, U.S. exports to these two countries were $55.6 and $26.9 billion respectively. Furthermore, U.S. exports to Canada are roughly equivalent to U.S. exports to all 12 countries in the European Community. The state of Michigan alone exported more than $7.9 billion of goods to Canada in 1986. Similarly, New York exported more than $5 billion, Ohio $4.3 billion, Pennsylvania $2.1 billion. Even nonborder states such as California exported more than $3 billion, Texas $1.5 billion, and Florida $1 billion. These exports include a broad range of products from the automobile, computer, aerospace and chemical sectors.

Bilateral trade between our two countries continues to grow. Since 1970, U.S. exports to Canada have grown from $9.1 billion to $45.3 billion in 1986. Nonetheless, ACTE/CAN is also mindful of the concerns of other industries that recognize the vast potential of the Canadian market but are currently restricted in participating in this lucrative market.

United States nationals have significant investments in Canada. At the end of 1986, U.S. direct investment in Canada amounted to more than $50 billion, representing 30 percent of all U.S. foreign investment abroad.

At the same time, Canada was the fourth largest foreign contributor of capital to the United States, with direct investment of more than $18 billion at the end of last year.

Opportunity

A successful outcome of these negotiations would provide opportunities for major economic benefits to both countries. Even though the largest part of trade between Canada and the United States is already duty free, with 65 percent of U.S. exports to Canada and 80 percent of Canadian exports to the United States crossing the border free of duty, the removal of the remaining tariff and nontariff barriers would be significant. Economists have projected a growth of both nations' GNP with a trade agreement. More specifically, our companies see great opportunities for increased sales in Canada with the attendant benefits of expanded production and employment throughout the United States. While Canada could gain more in percentage terms, the U.S. gains could be greater in absolute terms. The likely outcome of freer trade would truly be a win/win situation. Economic growth in both countries would promote increased investment, create jobs, and be beneficial to consumers.

A bilateral agreement moreover, would have positive ramifications that go beyond trade between the United States and Canada. At a time when business leaders and government officials are concerned about the United States' international competitiveness, a bilateral agreement with Canada would help assure that the United States becomes more competitive in world markets. Greater market access in Canada (with a population equivalent to the state of California) as well as larger economies of scale would lead to increased U.S. exports around the world.

A bilateral agreement would enable the United States and Canada to manage trade disputes without the risk of widening trade conflicts. Over the last few years, businesses have been subjected to greater uncertainties when trading across the border because of bilateral trade tensions involving lumber, shakes and shingles, pork, fish, and potash, just to name a few. These trade disputes have also subjected U.S. interests to Canadian investigations. A bilateral trade pact would clarify trade rules so that these disputes could be resolved before they become highly politicized and divisive.

Another major benefit of a U.S.-Canada agreement is that it points the way to broader multilateral cooperation in trade and the establishment of new international rules governing intellectual property, services, and investment. The bilateral talks are addressing these areas where barriers are predominantly of the nontariff variety. While the issues are complex, there is reason to believe that Canada and the United States can reach agreements in these areas. Any agreement on these issues reached with Canada would give added impetus and credibility to the U.S. position at the GATT (General Agreement on Tariffs and Trade) negotiations in Geneva where these very same issues are being addressed. On the other hand, an inability to resolve these issues with Canada, a country with which we traditionally share common objectives, would significantly dim the prospects for these negotiations in the multilateral forum.

There are also noneconomic reasons for pursuing a trade agreement with Canada. Both Americans and Canadians share common democratic, traditions and ideals. The economic philosophies of both nations are similar. A trade agreement would reaffirm the close ties of friendship that already exist between the two countries. Furthermore, a successful trade agreement would demonstrate the economic and political benefits of interdependence to the international community.

Finally, ACTE/CAN wishes to stress the historical importance of these negotiations. The United States and Canada are engaged in a once-in-a-lifetime effort to achieve a broader coordination of the two economies. The last major initiative for free trade between the two countries came with President William Howard Taft and Prime Minister Wilfrid Laurier in 1911. The international economic situation at that time was substantially different and less competitive that the one the United States faces today. President Taft, attempting to reverse decades of U.S. protectionism, reached an agreement with Laurier for limited free trade. Congress passed the legislation implementing the agreement, but in Canada free trade became a hot political issue, with an election called to decide the matter. Laurier lost the election, and with it, the free trade issue was relegated to the political hinterland for 75 years, until today. ACTE/CAN believes that it would be a tragic mistake were the two countries to miss this opportunity to see an agreement reached that would be economically beneficial to both the United States and Canada and their citizens.

In conclusion, ACTE/CAN is not blindly committed to any agreement with Canada. Our members will analyze the final negotiated agreement to see how it deals with broad questions as well as issues of particular concern to various industries. In the end, we will only support an agreement that is truly comprehensive in nature and beneficial to the United States.

We welcome this opportunity to submit our views as we believe there has been too little attention paid to trade with Canada, in general, and to these negotiations, in particular, especially at a time when international trade has become such a subject of broad national concern. We are therefore pleased that you and the Finance Committee are taking steps in advance of the conclusion of the U.S.-Canada negotiations to generate public awareness and national debate on this important matter.

Sincerely,

Gail Harrison

Gail Harrison
Executive Director

AMERICAN COALITION FOR TRADE EXPANSION WITH CANADA

STATEMENT OF PURPOSE

The American Coalition for Trade Expansion with Canada is being formed by a diverse group of American business leaders, drawn from many sectors and regions of the country to support a comprehensive trade agreement with Canada. The U.S.- Canada trade negotiations now underway are one of the most important opportunities available today to improve international trade.

Canada is not just America's largest trading partner. Together, the U.S. and Canada have the largest two way trading relationship in the world. Canada purchases far more American manufactured goods than any other country, and our exports to Canada have been growing at a much faster rate than those to the rest of the world.

At a time of mounting protectionist pressures, a comprehensive agreement with Canada to remove trade barriers will strengthen the American economy and better enable us to compete in the global marketplace in the coming years. A fair and equitable agreement will produce jobs, increase economic growth, lower prices for consumers and improve economic efficiency. America's international competitive position will be strengthened and, together, we can set an example of the benefits that can come from negotiating multinational agreements under GATT.

The Coalition is committed to support the efforts of the U.S. negotiators to use their best efforts to structure an agreement fair to both the U.S. and Canada which covers the broadest range of topics and sectors. Achievement of such an historic agreement should be a major priority of the Administration this year.

This agreement must be finalized this year so it is urgent that we work to increase public awareness of the important benefits of such an agreement.

ACTE/CAN MEMBERS
as of August 17, 1987

A-C Brake Co., Inc.	Louisville, KY
A.T. Cross Company	Lincoln, RI
ALCOA	Pittsburgh, PA
AMCA International Corporation	Hanover, NH
AT&T	New York, NY
Aaonton Group, Inc.	Plano, TX
Action Associates	Bloomington, MN
Aerospace Industries Association of America, Inc.	Washington, DC
Air Conditioning Contractors of America	Washington, DC
Air Conditioning and Refrigeration Institute	Arlington, VA
Alaska Quality Control & Technical Services, Ltd.	Anchorage, AK
Albert Seisler Machine Corp.	Mohnton, PA
Alderfer & Herm	Denver, CO
Allied-Signal International, Inc.	Morristown, NJ
Allis - Chalmers Corporation	West Allis, WI
Almerica Overseas, Inc.	Destin, FL
Alpha Research, Inc.	Glendale, WI
Alumax, Inc.	San Mateo, CA
Amatos, Inc.	Middletown, CT
Amerace Corporation	Hackettstown, NJ
Amerex Corporation	Trussville, AL
American Association of Exporters & Importers	New York, NY
American Association of Meat Processors	Elizabethtown, PA
American Business Conference	Washington, DC
American Cast Metals Association	Des Plaines, IL
American Council of Independent Laboratories	Washington, DC
American Electronics Association	Washington, DC
American Express Company	New York, NY
American Federation of Small Business	Chicago, IL
American Frozen Food Institute	McLean, VA
American Furniture Manufacturers Association	Washington, DC
American Institute of Marine Underwriters	New York, NY
American Institute of Small Business	Minneapolis, MN
American Newspaper Publishers Association	Washington, DC
American Retail Federation	Washington, DC
American Street Corridor Business Association	Philadelphia, PA
American Trucking Association	Alexandria, VA
Amigo Sales, Inc.	Bridgeport, MI
Archer Daniels Midland	Decatur, IL
Armtek Corporation	New Haven, CT
Arthur Andersen & Co.	Chicago, IL
Arthur Young	Dallas, TX
Artmor Plastics Corporation	Cumberland, MD
Associated Builders & Contractors	Washington, DC
Association of American Publishers	Washington, DC
Association of Collegiate Entrepreneurs	Wichita, KS
Augat, Inc.	Mansfield, MA
Austad's	Sioux Falls, SD
Avon Products, Inc.	New York, NY
B.F. Goodrich Company	Akron, OH
BP America Inc.	Cleveland, OH
Babcock & Wilcox	New Orleans, LA
Baker Service Tools	Houston, TX
Baldor Electric Company	Port Smith, AR
Ball Corporation	Muncie, IN
Ball Publishing Company	Arcanum, OH

Barnes Group Inc.	Bristol, CT
Barrios Technology, Inc.	Houston, TX
Bearings, Inc.	Cleveland, OH
Beckman Instruments, Inc.	Fullerton, CA
Bemis Manufacturing Company	Sheboygan Falls, WI
Bend Photo Center, Inc.	Bend, OR
Bernard R. Horn, Co.	Folcroft, PA
Better Business Bureau of Maricopa County	Mesa, AZ
Blair Cartage, Inc.	Newbury, OH
Blatt's Bakery	Put-in-Bay, OH
Bowes Manufacturing, Inc.	Solon, OH
Bristol-Myers Company	New York, NY
Brodart Company	Williamsport, PA
Brooklyn Union Gas Company	Brooklyn, NY
Brown Capital Management, Inc.	Baltimore, MD
Brown Deer Bank	Brown Deer, WI
Brown-Forman Corporation	Louisville, KY
Buffalo Forge Co.	Buffalo, NY
CPC International Inc.	Englewood Cliffs, NJ
Carbis Walker & Associates	Butler, PA
Cargill, Incorporated	Minneapolis, MN
Carolina Freight Carriers Corporation	Cherryville, NC
Castite Systems, Inc.	Cleveland, OH
Cass County Abstract Company	Fargo, ND
Champion International Corporation	Stamford, CT
Charles Beck Machine Corporation	King of Prussia, PA
Charles F. McAfee Architects Engineers Planners	Wichita, KS
Charter Medical Corporation	Macon, GA
Chattahoochee Business Group	Marietta, GA
Chicago Barter Corporation	Lombard, IL
Chicone Groves	Orlando, FL
Christy's	Ellwood City, PA
Citizens for a Sound Economy	Washington, DC
Clark Seals, Ltd.	Tulsa, OK
Claseman Management Services	St. Paul, MN
Climatic Control Company, Inc.	Milwaukee, WI
Coalition of Service Industries, Inc.	Washington, DC
Colborn's	Billings, MT
Coleco Industries, Inc.	West Hartford, CT
Columbia Chocolates By Mordens	Astoria, OR
Comdisco, Inc.	Rosemont, IL
Commercial Design Consultants	Milwaukee, WI
Committee for Small Business Exports	Aspen, CO
Comp-U-Card International, Inc.	Stamford, CT
Competition Cams, Inc.	Memphis, TN
Competitive Enterprise Institute	Washington, DC
Computer & Business Equipment Manufacturers Association	Washington, DC
Computer & Communications Industry Association	Washington, DC
Conco Systems, Inc.	Verona, PA
Concord Engineering, Inc.	Richmond, CA
Concord, Inc.	Fargo, ND
Consolidated Freightways, Inc.	Menlo Park,CA
Contact Systems Corporation	New York, NY
Control Data Corporation	Minneapolis, MN
Cooper Industries	Houston, TX
Creative Management Concepts	Reading, PA
Curtis Circulation Company	Hackensack, NJ
Custom Engineering, Inc.	Englewood, CO
D&M Consulting & Brokerage	Marshfield, WI
D-M-E Company	Madison Heights, MI
Deere & Company	Moline, IL
Design & Manufacturing Corporation	Connersville, IN
Di-Rec Services	Dallas, TX
Distilled Spirits Council of the U.S., Inc	Washington, DC
Dollar Power Discount Store	San Francisco, CA
Donaldson Company, Inc.	Minneapolis, MN
Dow Chemical U.S.A.	Midland, MI
Dow Corning Corporation	Midland, MI
Dunkin' Donuts Incorporated	Randolph, MA
E. H. Curtin Insurance Agency	Cambridge, MA
E. W. Kearney & Company	Portland, ME

E. R. Clarke Associates, Inc.	Lake Forest, IL
ERA Steel Construction Corp.	White Plains, NY
Echlin Corp.	Branford, CT
Eclipse, Inc.	Rockford, IL
Econocorp, Inc.	Randolph, MA
Electro Rent Corporation	Santa Monica, CA
Elhert Bradshaw Enterprises	Carmel, IN
Emergency Committee for American Trade	Washington, DC
Eri-M Corporation	Kennett Square, PA
Ernst & Whinney	New York, NY
Esselte Business Systems, Inc.	Garden City, NY
Event Specialists, Inc.	Anchorage, AK
Executive Report	Pittsburgh, PA
FMC Corporation	Chicago, IL
Fairchild Industries	Chantilly, VA
Fila Associates	Miami, FL
First Bank System	Minneapolis, MN
Flambeau Corporation	Baraboo, WI
Flint Industrial Services	Albany, GA
Focus Electronics Inc.	Brooklyn, NY
Fort Howard Paper Company	Green Bay, WI
Fred Jones Manufacturing Company	Oklahoma City, OK
Fuqua Industries, Inc.	Atlanta, GA
G.D. Searle & Co.	Chicago, IL
GTE Corporation	Stamford, CT
Garrett Corporation	Torrance, CA
Gates Learjet Corporation	Tucson, AZ
Gatherings South, Inc.	Greenville, SC
Gene Boyer & Associates, Inc.	Beaver Dam, WI
Genentech, Inc.	S. San Francisco, CA
General Dynamics Corporation	St. Louis, MO
General Public Utilities Corporation	Parsippany, NJ
Glowacki Everhardt & Association, Inc.	Toledo, OH
Goldman Sachs	New York, NY
Goodyear Tire & Rubber Company	Akron, OH
Gorman-Rupp Co.	Waterbury, CT
Greater Newark Chamber of Commerce	Newark, NJ
Gregory Manufacturing Co., Inc.	Jackson, MS
Griffen Agency	Prospect, PA
Grumman Corporation	Arlington, VA
H.J. Heinz Company	Pittsburgh, PA
HMA International Business Development, Ltd.	Greensboro, NC
Half Price Books, Inc.	Dallas, TX
Hamilton Beach, Inc.	Waterbury, CT
Hartz Mountain Corporation	Harrison, NJ
Heat - Timer Corporation	Fairfield, NJ
Hercules Engines, Inc.	Canton, OH
Herrmidifier Company, Inc.	Lancaster, PA
Hevi-Haul International Limited	Butler, WI
Hewlett-Packard Company	Palo Alto, CA
Hexagon Architecture Group Limited	Wyncote, PA
High-Tech International	Beltsville, MD
Hill & Associates	Madison, WI
Hoffman Air & Filtration Systems	East Syracue, NY
Holiday Corporation	Memphis, TN
Holloman Child Development Centers	Hampton, VA
Honeywell, Inc.	Minneapolis, MN
Horizon Resources Corporation	York, PA
Hotwatt, Inc.	Danvers, MA
Hunt Tractor, Inc.	Louisville, KY
ITBR, Inc.	Austin, TX
Image Express	Southfield, MI
Imperial Schrade Corporation	New York, NY
Impressive Advance & Litho, Inc	Waynesboro, VA
Incom International Inc.	Pittsburgh, PA
Independent Bakers Association	Washington, DC
Industrial Commission of Arizona	Mesa, AZ
Industrial Heating Equipment Association	Arlington, VA
Informerific/Hexter & Associates	Cleveland, OH
Ingersoll-Rand Company	Woodcliff Lake, NJ
Intel Corporation	Santa Clara, CA
International Business Machines Corp.	Armonk, NY

International Data Corporation	McLean, VA
International Franchise Association	Washington, DC
Interstate Electronics Corporation	Anaheim, CA
JGP Marketing Group International, Inc.	Livonia, MI
JLG Industries, Inc.	McConnellsburg, PA
Jack O'Connor's Quality Beef 'N Seafood	Bridgewater, NJ
Johnson & Johnson	New Brunswick, NJ
Jon Holtshopple & Associates	Madison, WI
Justin Boot Company	Fort Worth, TX
Katy Industries, Inc.	Elgin, IL
Kentucky Manufacturing Co.	Louisville, KY
Kerr-Hays Co.	Ligonier, PA
Kimball Physics, Inc.	Wilton, NH
Kingsbury Machine Tool Corporation	Keene, NH
Knape & Vogt Manufacturing Company	Grand Rapids, MI
Knoll International Holdings, Inc.	New York, NY
Koester Corporation	Defiance, OH
L.R. Nelson Corporation	Peoria, VA
LC Technologies, Inc.	Fairfax, VA
Lafarge Corporation	Dallas, TX
Lamanite Enterprises Corp.	Clearfield, UT
Lancaster Laboratories, Inc.	Lancaster, PA
Laramy Products Co.	Lyndonville, VT
Lavelle Aircraft Co.	Philadelphia, PA
Lee, Theisen & Stegall	Phoenix, AZ
Lennox Industries Inc.	Dallas, TX
Lewis Ranches	Portland, OR
Lin-Art, Ltd.	Arlington Heights, IL
Longyear Company	Minneapolis, MN
Louisiana Association of Business and Industry	Baton Rouge, LA
Louisiana Retailers Association	Baton Rouge, LA
Louisville Plate Glass Company	Louisville, KY
Lowe's Companies, Inc.	North Wilkesboro, NC
Luken's Inc.	Coatesville, PA
M. S. Hansson, Inc.	Boulder, CO
MDB, Inc.	Pittsburgh, PA
MDU Resources Group, Inc.	Bismarck, ND
Mack Trucks Inc.	Allentown, PA
Macmillan, Inc.	New York, NY
Maidenform, Inc.	New York, NY
Maine Machine Products Company	South Paris, ME
Maine Wild Blueberry Company	Machias, ME
Margaret Coleman Associates	Hinsdale, IL
Marketing Communications Systems	Portland, OR
Marriott Corporation	Washington, DC
Marsh & McLennan, Inc.	New York, NY
Marshall & Associates	Topsfield, MA
Mattel, Inc.	Hawthorne, CA
Mayflower Transit, Inc.	Indianapolis, IN
Maytag Corporation	Newton Falls, OH
McIntosh, Inc.	Norfolk, NE
McLaurin Parking Co.	Raleigh, NC
McMinnville City Sanitary Service, Inc.	McMinnville, OR
Measurex Corporation	Cupertino, CA
Mel Boldt & Association	Mt. Prospect, IL
Mentholatum Company	Buffalo, NY
Merck & Co., Inc.	Rahway, NJ
Metal Treating Institute	Jacksonville Beach,FL
Metropolitan Life Insurance Company	New York, NY
Mid-Continent Cold Storage Co.	Omaha, NE
Milbar Corporation	Chargin Falls, OH
Minnesota Mining & Manufacturing Company (3M)	St. Paul, MN
Mobil Corporation	New York, NY
MonArk Boat Company	Monticello, AR
Mosbacher Energy Company	Houston, TX
Mosler International	Hamilton, OH
Murphy Oil Corporation	El Dorado, AR
N. J. Chapter - National Association of Women Business Owners	Cherry Hill, NJ
NVRyan	Alexandria, VA
Nalco Chemical Company	Naperville, IL
National Association of Photographic Manufacturers	Harrison, NY

National Association of Printing Ink Manufacturers	Harrison, NY
National Association of Beverage Importers, Inc.	Washington, DC
National Association of Home Builders	Washington, DC
National Association of Manufacturers	Washington, DC
National Association of Women Business Owners	Chicago, IL
National Federation of Independent Business	Washington, DC
National Foreign Trade Council	New York, NY
National Hispanic Business Association	Chamblee, GA
National Lumber & Building Materials Dealers Association	Washington, DC
National Machine Machine Tool Builders Association	McLean, VA
National Retail Merchants Association	Washington, DC
National Small Business United	Washington, DC
National-American Wholesalers Grocers' Association	Washington, DC
Nestle Enterprises, Inc.	Solon, OH
New England Electric System	Westborough, MA
New Jersey Small Business Unity Council	Little Silver, NJ
Nicholson, Inc.	Helena, MT
North Haven Gardens	Dallas, TX
Northeastern Retail Lumbermen's Association	Rochester, NY
Northland Corporation	Greenville, MI
Northwest River Supplies, Inc.	Moscow, ID
O'Brien Communications	Del Mar, CA
Oakwood Markets, Inc.	Kingsport, TN
Oneida Ltd.	Oneida, NY
PII Affiliates, Ltd.	Manchester, PA
PLM Companies, Inc.	San Francisco, CA
PMI/Taylor Advertising	Columbus, OH
Pacer Systems, Inc.	Billerica, MA
Pacific Interstate Company	Los Angeles, CA
Paragon Electric Company, Inc	Two Rivers, WI
Parlette Tire Co., Inc.	Erie, PA
Peat Marwick Main & Co.	New York, NY
Pennwalt Corporation	Philadelphia, PA
People to People Associates	Lexington, MA
Pepsi-Cola International	Somers, NY
Perham Egg, Inc.	Perham, MN
Perlis Truckstops	Cordele, GA
Pet Incorporated	St. Louis, MO
Pharmaceutical Manufacturers Association	Washington, D.C.
Philips Industries Inc.	Dayton, OH
Photoscience, Inc.	Gaithersburg, MD
Picken Parts, Inc.	Fresno, CA
Plabell Rubber Products, Inc.	Toledo, OH
Plasco, Inc.	Woburn, MA
Ply*Gem Industries, Inc.	New York, NY
Polaroid Corporation	Cambridge, MA
Powermax, Inc.	Columbus, OH
Pre-Paid Legal Services	Ada, OK
Precision Twist Drill Co.	Crystal Lake, IL
Prinova Co., Inc.	San Francisco, CA
Procter & Gamble	Cincinnati, OH
Product Development Corporation	Little Rock, AR
Professional Service Corporation	Green Bay, WI
Professional Wealth Management	Asheville, NC
Professional Women in Construction & Allied Industries	White Plains, NY
Progressive Management Enterprises, Ltd.	St. Louis, MO
Pulp & Paper Machinery Manufacturers' Association	Washington, DC
Queen Carpet Corporation	Dalton, GA
Queen City Industries, Inc.	Piqua, OH
R. R. Donnelley & Sons Company	Chicago, IL
RJR Nabisco	Winston-Salem, NC
Radio KDNO	Delano, CA
Ramada, Inc.	Phoenix, AZ
Recon/Optical, Inc.	Barrington, IL
Rexnord Inc.	Brookfield, WI
Rheem Manufacturing Company	New York, NY
Ridenour & Associates	Chicago, IL

Riordan, Crivello, Carlson & Menthkowski	Milwaukee, WI
Rockwell International	Pittsburgh, PA
Roll-o-matic, Inc.	Kansas City, MO
Rooney, Plotkin & Willey	Providence, RI
Rorer International Pharmaceuticals	Fort Washington, PA
Rotron Engineering Company, Inc.	Woburn, MA
Rudolph Beaver, Inc.	Waltham, MA
Rural Gravure Services, Inc.	Madison, WI
Russ Berrie and Company, Inc.	Oakland, NJ
SNC Manufacturing Company	Oshkosh, WI
Sabre Yachts	South Casco, ME
Safeway Stores, Inc.	Oakland, CA
Samsonite Corporation	Denver, CO
Sandmeyer Steel Company	Philadelphia, PA
Sargent-Welch Scientific Company	Skokie, IL
Scientific-Atlanta, Inc.	Atlanta, GA
Scott Paper Company	Philadelphia, PA
Sears, Roebuck and Co.	Chicago, IL
Shaw Mudge & Co.	Stamford, CT
Shell Oil Company	Houston, TX
Sheridan & Fritz, P.C.	Harrisburg, PA
Siliconix Inc.	Santa Clara, CA
Simplex Time Recorder Company	Gardner, MA
Smada, Inc.	Phoenix, AZ
Small Business Foundation of America	Boston, MA
Small Business Hawaii, Inc.	Honolulu, HI
Small Business United of Missouri	St. Louis, MO
Smaller Business Associates of New England	Boston, MA
Smaller Manufacturers Council	Pittsburgh, PA
Smith Barney Inc.	New York, NY
Smith Rollinson	Alexandria, VA
Snider, Lewak, Greenbaum & Goldstein	Los Angeles, CA
Snyder General Corporation	Dallas, TX
Southern Connecticut Gas Company	Bridgeport, CT
Spacesaver Corporation	Fort Atkinson, WI
Specialized Carriers & Rigging Association	Alexandria, VA
Square One, Inc.	Madison, WI
Squibb Corporation	Princeton, NJ
Sta-Rite Overseas Corporation	Milwaukee, WI
Standard-Thomson Corporation	Waltham, MA
Steiner Shipyard, Inc.	Bayou La Batre, AL
Stone & Webster Engineering Corporation	Boston, MA
Storage Technology Corporation	Louisville, CO
Sun Electric Corporation	Crystal Lake, IL
Superior Technical Ceramics Corp.	St. Albans, VT
Syntex Corporation	Palo Alto, CA
TVI Creative Specialists	Washington, DC
Tandem Computers Incorporated	Cupertino, CA
Tandy Brands, Inc.	Fort Worth, TX
Tanner Systems, Inc.	Sauk Rapids, MN
Tatum Enterprises	Honolulu, HI
Technivest, Inc.	South Bend, IN
Ted Grob Sales, Inc.	Grafton, WI
Termiflex Corporation	Merrimack, NH
Terry Neese Personnel Services	Oklahoma City, OK
Texas Industries, Inc.	Dallas, TX
The Afro/Hispanic-American Chambers of Commerce	Bossier City, LA
The Americas Society	New York, NY
The Andersons	Maume, OH
The Black & Decker Corp.	Towson, MD
The Buffalo News	Buffalo, NY
The Calvert Gallery	Washington, DC
The Carlton Group	Richmond, VA
The Coca-Cola Company	New York, NY
The Collectors Guild Ltd.	Wilmington, NC
The Firestone Tire & Rubber	Akron, OH
The First Boston Corp.	New York, NY
The Free Press Media Group	Hendersonville, TN
The Fur Vault, Inc.	New York, NY
The Harodite Finishing Co., Inc.	North Dighton, MA
The Hoover Company	North Canton, OH

The Moser Bag & Paper Co.	Cleveland, OH
The Pillsbury Company	Minneapolis, MN
The Principal Financial Group	Des Moines, IA
The Quillen Group	Groton, CT
The Singer Company	Stamford, CT
The Stacupole Corp.	Boston, MA
The Telemarketing Company	Chicago, IL
The United Illuminating Company	New Haven, CT
The Upjohn Company	Kalamazoo, MI
The Valspar Corporation	Minneapolis, MN
The Will-Burt Company	Orrville, OH
Thomas J. Seitz Co., Inc.	Racine, WI
Tingley Systems, Inc.	San Antonio, FL
Toledo Harbor Warehousing, Inc.	Toledo, OH
Tracor, Inc.	Austin, TX
TransTech, Inc.	East McKeesport, PA
Triangle Research Development Corp.	Research Triangle Park, NC
Trinity Industries, Inc.	Dallas, TX
Trouble Shooters, Inc.	Omaha, NE
Truck Trailer Manufacturers Association	Alexandria, VA
U.S. Axle, Inc	Pottstown, PA
U.S. Council for International Business	Washington, DC
USG Corporation	Chicago, IL
United Industries Inc.	Wichita, KS
Village Green	Midland, MI
Vocational Rehabilitation Associates, Inc.	Eugene, OR
W. R. Grace & Company	New York, NY
W.H. Brady Co.	Milwaukee, WI
WIS, Inc.	Toledo, OH
Waldorf Corporation	St. Paul, MN
Wayer Corporation	Landover, MD
Western Publishing Company, Inc.	Racine, WI
Weyerhauser Company	Washington, DC
Whale Scientific, Inc.	Commerce City, CO
Whirlpool Corporation	Benton Harbor, MI
White Plains Iron, Inc.	New York, NY
Wholesale Florists & Florist Suppliers of America	Arlington, VA
William A. Price & Associates	Wheaton, IL
William H. Taylor & Company, Inc.	Allentown, PA
Wingspread Corporation	New York, NY
Women Entrepreneurs	Lincolnwood, IL
Women Featherbone Company	Gainesville, GA
Woodhead Industries, Inc.	Northbrook, IL
ZinYeast, Inc.	Marshfield, WI

American Electronics Association AEA

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August 18, 1987

The Honorable Lloyd M. Bentsen
Chairman, Committee on Finance
United States Senate
205 Dirksen
Washington, D.C. 20510

Dear Mr. Chairman:

The American Electronics Association (AEA) is pleased to respond to the request of your committee for comments on the U.S.-Canada Free Trade Area Negotiations. We strongly believe that both the U.S. and Canadian electronics industries would directly benefit from a meaningful free trade agreement between our countries.

The electronics industry has a major stake in trade with Canada. Bilateral trade in electronics products totalled $6.8 billion in 1984, and $7.5 billion in both 1985 and 1986. Exports were valued at $4.3 billion for 1984, $4.9 billion for 1985 and $4.8 billion for 1986, whereas imports of electronics from Canada totalled $2.5 billion for 1984, $2.6 billion for 1985, and $2.7 billion for 1986.

Accordingly, the AEA wishes to express its support for the elimination of barriers and distortions to trade between the United States and Canada in goods (including telecommunications and electronic goods), services, investment, and intellectual property. Such an agreement should contain at a minimum: (1) the immediate reduction of Canadian duties on U.S. electronics products to the preferential rate, such as to eliminate tariff preferences for British commonwealth countries and to match those U.S. duty rates for the same incoming electronics commodities into the United States; (2) the elimination of non-tariff barriers to market access; and (3) rules of origin that allow for free trade while minimizing trade diversion and the paper burden on industry.

AEA's membership is diverse, including 2,800 U.S. manufacturers of electronics products, including computers and peripherals, semiconductors and other components, telecommunications equipment, defense systems and products, instruments, software and office systems. Because of the broad economic interests of our members, we are committed to a bilateral arrangement with Canada which is comprehensive. In the areas of tariffs, rules of origin, government procurement, services and investment, AEA believes that a Free Trade Agreement should secure no less than fully reciprocal export opportunities for U.S. and Canadian electronics manufacturers through the elimination of bilateral trade barriers.

Canada's tariffs on electronics products remain a significant problem for U.S. electronics companies. Duty rates for most finished electronics products are high -- ranging up to 17 percent. Further, the overall structure of Canada's tariff schedule in the electronics sector provides a disincentive to U.S. exports of higher value assembled products: tariff escalation is pervasive, with parts and components often subject to low and even free rates of duty, while fully assembled products are generally subject to high duty rates. Additionally, Canada maintains a system of tariff preferences for British commonwealth countries (except the United Kingdom and Ireland). The margins of preference available under this system are often considerable, and can provide advantages to such foreign suppliers as Singapore and Malaysia.

With respect to rules of origin, adequate customs procedures must exist to ensure that goods of third country origin do not benefit from FTA liberalization. (The extensive product rationalization existing in both the U.S. and Canadian electronics industries makes this issue one of critical significance.) Any proposed rules of origin should be sufficient to prevent intentional diversion, but should also be simple enough to eliminate the enormous paperwork burden on both U.S. and Canadian industries.

In the area of government policies and practices, AEA believes that the U.S. government should secure Canadian application of full national treatment to U.S. electronics producers in its federal and provincial procurement policies. Further, we seek access to Canadian federal and provincial regulated telecommunications services providers that is as open as that accorded Canadian suppliers by the U.S.

In the area of intellectual property, the U.S.-Canada talks provide the opportunity to work out a model of how intellectual property issues might be addressed effectively in the trade context. Adequate and effective protection of intellectual property, including literary works copyright protection for software and specific protection for semiconductor mask works, is essential to technological progress in both countries. Software already accounts for a significant part of the information processing business, and is one of its fastest growing elements. Inadequate protection of intellectual property rights could impair the future of the whole industry by discouraging costly investment in software development. At a minimum, Canada's progress towards literary works copyright protection for software, supported in principle by the current government, should be codified in a timely manner.

With respect to services, the U.S. government should continue to pursue principles designed to ensure the openness of trade and investment in services. Services now represent the largest portion of the world economy, yet no internationally agreed principles exist to prevent or reduce barriers limiting their growth. In the U.S.-Canada talks, as in the multilateral Uruguay Round talks, initial principles to protect services should be based on existing GATT concepts such as national treatment, transparency and dispute settlement, and on the practice of conditional most-favored nation treatment as embodied in current codes.

Progress in removing trade barriers in these areas is especially significant to AEA members now, at a time when we face a global trade situation of critical concern. Overall, our world trade balance has deteriorated from a surplus of $7.4 billion in 1980 to a deficit of $6.2 billion in 1984, $8.8 billion for 1985, and $13.1 billion for 1986. Indeed, with the exception of the European community, Canada is the only major trading partner with which the U.S. electronics industry maintains a surplus.

The AEA will judge the results of any arrangement that is reached largely on its impact on the U.S. electronics industry. Should central issues be addressed in a comprehensive and meaningful manner, the AEA would fully endorse an agreement on trade between the United States and Canada. The AEA would, by the same token, withhold its support from any agreement that does not meet these most basic of concerns.

Sincerely,

William K. Krist
Vice President
International Trade Affairs

AMERICAN EXPRESS COMPANY
AMERICAN EXPRESS TOWER WORLD FINANCIAL CENTER NEW YORK NEW YORK 10285-5160

HARRY L. FREEMAN
EXECUTIVE VICE PRESIDENT
CORPORATE AFFAIRS AND COMMUNICATIONS

August 7, 1987

Dear Mr. Chairman:

On behalf of the American Express Company, I welcome the opportunity to comment on the U.S.-Canada negotiations. American Express strongly favors the conclusion of a comprehensive, mutually beneficial bilateral trade agreement between the two countries. To this end, my company is a member of the Steering Committee of the American Coalition on Trade Expansion with Canada (ACTE-CAN), a diverse group of over 450 companies and trade associations from around the country that have joined together to support the negotiation -- and eventual approval -- of a bilateral trade agreement with Canada covering the widest possible range of trade issues and sectors.

The benefits to the United States of improved trade with Canada will be far-reaching. A comprehensive agreement, when fully implemented, will improve economic efficiency, and will result in a net increase in growth and jobs and lower prices for consumers in both countries. It will make both countries more competitive internationally by improving economies of scale, thus creating a larger, more efficient base for U.S. firms selling to overseas markets.

The agreement that results from the current negotiations, therefore, must be judged first and foremost on the basis of its contribution to commercial relations between the two countries. American Express believes that, in order to meet this crucial test, the bilateral agreement must include a major agreement to liberalize trade in services. An agreement must provide for national treatment for U.S. services exports to Canada and for U.S. services firms operating in Canada. It should include guarantees that U.S. services firms will be granted the right of market access in Canada, through some form of commercial presence if necessary. And it should enable

U.S. firms to compete with government-owned services enterprises in Canada without discrimination. A U.S.-Canada services agreement must cover a wide range of services sectors, including tourism, telecommunications, and, in particular, financial services, where there are major opportunities to expand trade by removing existing obstacles.

In addition to the opportunity to free up trade in services between the U.S. and Canada, American Express believes that the U.S.-Canada agreement now being negotiated has the potential to be the single most important step that both countries can take in this decade to promote on open world trading system and tangibly improve American competitiveness in world markets. Our bilateral trading relationship, the largest in the world, has historically been harmonious and beneficial to both countries. A good bilateral agreement will serve both to preserve this relationship and to build and improve on it in a way that will help the United States to meet the competitive challenges of the global marketplace.

A successful agreement would also help to establish the two countries as allies in the effort to liberalize trade multilaterally and will provide models for negotiating new multilateral agreements under the General Agreement on Tariffs and Trade. Failure to negotiate a comprehensive bilateral trade agreement, on the other hand, could lead to a serious deterioration in U.S.-Canada trade relations and would call into question the prospects for GATT negotiations.

American Express, and our partners in ACTE-CAN, will carefully review the text of the draft agreement when it is available and will offer our further views at that time.

We greatly appreciate the interest you have shown in the U.S.-Canada trade negotiations and your efforts to increase the public dialogue on this issue.

Sincerely,

The Honorable Lloyd Bentsen
Chairman
Committee on Finance
United States Senate
205 Senate Dirksen Office Bldg.
Washington, D.C. 20510

American Federation of Labor and Congress of Industrial Organizations

815 Sixteenth Street, N.W.
Washington, D.C. 20006
(202) 637-5000

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August 26, 1987

The Honorable Lloyd Bentsen, Chairman
Committee on Finance
205 Dirksen Senate Office Building
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

The AFL-CIO appreciates the opportunity to comment on the U.S. Canadian Free Trade Agreement. Since the final agreement has not been submitted to Congress we must make rather general comments.

The AFL-CIO traditionally has opposed such free-trade agreements. We believe that the government must play a positive role in solving trade problems between nations and not abrogating its responsibility through such agreements. Further, we are concerned that the U.S.-Canadian agreement could have precedential value on the Uruguay round of negotiations under the General Agreement on Tariff and Trade (GATT). Finally, the AFL-CIO is proud of its close ties with Canada, but agrees with the Canadian labor movement that a free trade agreement is not the way to deal with trade problems between our countries.

At the AFL-CIO's August Executive Council Meeting, the Council issued a statement concerning this issue and stated, "that if an agreement is negotiated, the following elements should be included":

- Basic provisions of U.S. trade law must continue to apply completely to trade with Canada. There should be no exemptions or special structures created to bypass U.S. trade provisions such as relief from injury in Section 201 and the countervailing-duty provision affecting subsidies or the anti-dumping provisions and other unfair trading practices covered by Section 301.

- Any agreement on tariffs must immediately require equivalent rates. Since Canada's tariffs currently average twice that of the U.S., equity should be reached prior to any mutual phased reductions.

- Strict rules of origin must be applied to ensure that other countries do not use the agreement to circumvent existing law.

- U.S. law and regulation in the transportation sector must not be weakened, and cabotage laws, including the Jones Act, must be maintained.

- Current U.S. government procurement laws and regulations must be preserved.

- U.S. immigration regulations must be fully observed.

- Bilateral trade agreements such as the auto pact must be renegotiated to provide equivalent safeguards for domestic production.

If the negotiations are successful, the AFL-CIO would appreciate the opportunity to comment in detail on this agreement. In the meantime, we appreciate this opportunity to share our concerns with you and members of the committee.

Sincerely,

Robert M. McGlotten

Robert M. McGlotten, Director
DEPARTMENT OF LEGISLATION

Enclosure: Copy of AFL-CIO Executive Council Statement on U.S.-Canada Free Trade Area Negotiations

cc: Members of the Committee on Finance and
Members of the Committee on Ways and Means

Statement by the AFL-CIO Executive Council

on

U.S.-Canada Free Trade Area Negotiations

August 19, 1987
Washington, D.C.

The goal of trade should be the well-being of a country's citizens and not some vague ideology such as "free trade agreements." The AFL-CIO is proud of its close ties with Canada and agrees with the Canadian labor movement that a free trade agreement is not the way to deal with trade problems between our countries.

The U.S. and Canadian governments have now been engaged in negotiations on a comprehensive free trade agreement for some 18 months. The Administration plans to submit the preliminary results of those negotiations to Congress early in October.

Unfortunately, the agreement now under discussion would do little to solve the serious trade problems between the U.S. and Canada and may in fact make them worse. For example, the negotiators have not addressed the undervalued Canadian dollar nor ways to reverse the substantial U.S. trade deficit with Canada.

The AFL-CIO is concerned that any agreement reached with Canada will be used as a blueprint for negotiations with other countries as well as in the Uruguay Round of negotiations under the General Agreement on Tariffs and Trade (GATT).

The AFL-CIO is opposed to free trade agreements. Governments must play a positive role in solving trade problems rather than withdrawing from the scene. The U.S. must manage its economic affairs and trade policies in a way that assures the well-being of America. But if, despite our opposition, such an agreement is negotiated with Canada, the interests of U.S. workers require that the agreement contain the following elements:

* Basic provisions of U.S. trade law must continue to apply completely to trade with Canada. There should be no exemptions or special structures created to bypass U.S. trade provisions such as relief from trade injury in Section 201 and the countervailing-duty provision affecting subsidies or the anti-dumping provisions and other unfair trading practices covered by Section 301.

* Any agreement on tariffs must immediately require equivalent rates. Since Canada's tariffs currently average twice that of the U.S., equity should be reached prior to any mutual phased reductions.

* Strict rules of origin must be applied to ensure that other countries do not use the agreement to circumvent existing law.

* U.S. law and regulation in the transportation sector must not be weakened, and cabotage laws, including the Jones Act, must be maintained.

* Current U.S. government procurement laws and regulations must be preserved.

* U.S. immigration regulations must be fully observed.

* Bilateral trade agreements such as the auto pact must be renegotiated to provide equivalent safeguards for domestic production.

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STATEMENT OF

THE

AMERICAN FURNITURE MANUFACTURERS ASSOCIATION

ON

U. S. - CANADA FREE TRADE NEGOTIATIONS

We are pleased to submit these views on behalf of the American Furniture Manufacturers Association (AFMA) with regard to an issue of critical importance to our industry -- the U.S./Canada free trade area negotiations.

The American Furniture Manufacturers Association is the largest furniture manufacturing trade association in the United States. By volume, sales by AFMA member companies comprise the vast majority of residential furniture produced in the United States. Also, the AFMA members have home offices or facilities in almost the entire fifty states and provide employment to several hundred thousand persons. These comments apply to Tariff Sections 9401.30, .40, .50, .61, .69, .71, .79, .80, .90, and 9403 of the Harmonized System, and to Tariff Schedule of the U.S. (TSUS) Sections 727.11-47 (inclusive), .59, .65, and .70.

SUMMARY

We would like to state the association's strong support for a free-trade agreement on furniture products shipped between the United States and Canada, and our support for the Small Business Bilateral Free Trade Act, S. 1341 (Helms, R-NC) and H.R. 2602 (Coble, R-NC). For years AFMA members have urged the Congress and the Administration to do everything possible to have furniture tariffs between the United States and Canada put on a more equitable basis.

After all the time and effort our industry has devoted to resolving this continuing issue, we would hope that the U.S. and Canada will act quickly to effectuate a trade liberalization agreement providing free trade, or equal duties, at a minimum, for furniture products between our two countries. If not, as discussed below, the mechanism included in S. 1341/H.R. 2602 will work to provide reciprocal tariff treatment on Canadian furniture entering the U.S.

AFMA believes that the U.S. and Canada stand poised to enter into a potentially historic agreement. While we recognize that the furniture and other industries have long-standing grievances regarding trade with Canada, AFMA views the negotiations as a landmark opportunity for both countries to resolve disputes regarding furniture tariffs. However, to date the Canadian negotiators appear more interested in proffering inequitable resolutions to our industry's tariff problems, than in consumating a reasonable agreement.

The U.S.-Canada furniture trade deficit today stands higher than it has at any other time in the history of U.S.-Canadian trade (approximately $427 million in 1986).

Given the added effect of the persistently overvalued U.S. dollar, which has yet to decline relative to the Canadian dollar, AFMA believes the U.S. furniture industry is fully justified in strongly requesting an agreement containing an immediate elimination of all Canadian/ U.S tariffs on furniture products, or equal duties, at a minimum.

COMMENTS

AFMA is extremely concerned with tariff barriers which have been set by countries with the intent of keeping furniture manufactured in the U.S. out of their domestic markets. The United States, on the other hand, has maintained low tariffs on furniture. In fact, the record of the U.S. on domestic tariffs has been outstanding: duties on wood and upholstered household furniture entering the U.S. have decreased by 73% and 76% respectively, since 1963, and by 1987 will have decreased 76% and 80%, respectively (under the Multilateral Trade Negotiations). As the United States moves to implement the Harmonized System, domestic tariffs on furniture will further decline. The record of certain other countries in that regard has not been as commendable.

Because of our common border, similar cultures and government regulations, Canada provides the American furniture manufacturer with perhaps the most egregious example of unfair tariff barriers to U.S. products in the world. Non-metal, residential furniture shipped from the United States into Canada faces a minimum duty of 15.0%. Canadian furniture entering the United States faces duties of 7.0% (upholstered), 5.3% (wood chairs), or as low as 2.5% for the bulk of furniture products (wood tables, desks, beds, etc.). Therefore, through duties assessed, Canadian furniture imports are given a clear and substantial advantage over U.S. exports to Canada.

The effect of inequitable Canadian duties, coupled with an unfavorable exchange rate, on the U.S. furniture industry has been dramatic. According to the U.S. Department of Commerce, U.S. imports of Canadian furniture rose from $149 million in 1980, to $515.2 million in 1986 -- almost a 246% increase. The $515.2 million 1986 figure - nearly 16% of all U.S. furniture imports -- represents a growth of 18% from the 1985 total of $436 million. U.S. furniture exports to Canada remained essentially static, and again failed to keep pace with import growth.

For 1986, U.S. Department of Commerce import/export data on the Canadian/U.S. wood furniture trade is highly disturbing. Canadian wood furniture shipments into America grew $34.8 million from 1985-86, from $188 million to $222.8 million. At the same time, U.S. wood furniture exports to Canada grew only slightly, from $29.4 million to $34.7 million.

Going beyond Canada, for a moment, and using the most recent U.S. Department of Commerce data available, wood and upholstered furniture imports from 1979 to 1986 increased over 925% from $312 million to $3.2 billion. U.S. exports of the same categories from 1979 to 1986 went from $312 million to an estimated $351 million. Taken together, these trends are forecasting a fundamental restructuring of the U.S. furniture industry, based not on a valid competitive balance, but upon an international marketplace skewed by tariff barriers.

These numbers reflect the extent to which the Canadian-U.S. tariff inequity forces competition to be on a most unfair and uneven basis. Competition is an essential element of our business. This industry is not, nor has it ever been, dominated by a few large companies. Instead, it is an extraordinarily competitive industry comprised of approximately 4500 companies, over two-thirds of which employ fewer than 20 workers. Profit margins are slim (since 1978, after-tax profits have averaged approximately 3-4%). Estimates are that the wood and upholstered furniture industry had approximately $14 billion in shipments during 1986.

In 1984, the International Trade Commission (ITC) completed a study, entitled, Competitive Assessment of the U.S. Wood and Upholstered Household Furniture Industry. The study was comprehensive and well-documented, and the published report provides an overview of the industry's current domestic and international trade position. We were pleased to have many of our members contribute to that study and to have the Commission in High Point, N. C. for field hearings and tours of furniture facilities.

The ITC report pointed out that, historically, the U.S. and Canada have been major furniture trading partners. In fact, while Canada is among the leading exporters of furniture into the U.S., it is also the second largest importer of U.S. furniture.

The Canadian furniture industry is very similar to the U.S. industry in structure, wages, level of technology and access to capital. Much like the U.S., worker health and safety and pollution control are deemed essential in Canada, and thus regulated by government. The ITC study of our industry documented the similarities between the U.S. and Canadian industries in the description of "Major Foreign Competitors," (Competitive Assessment of the Wood and Upholstered Household Furniture Industry, U.S. International Trade Commission, Publication 1543, pp. 21-22).

U.S. furniture manufacturers have enjoyed no special protection. Canadian manufacturers, on the other hand, have been shielded from U.S. exports by a high duty rate as well as a favorable exchange rate (Competitive Assessment, U.S. ITC, Page 8). Further, many Canadian manufacturers have the advantage of actually being closer to the major U.S. population centers than many major U.S. manufacturers (Competitive Assessment, U.S. ITC, Page 21).

In view of the similarities between our countries and the extent of furniture trade between the U.S. and Canada we view the current duty differential as unnecessary and disruptive. Canadian furniture in many cases offers serious competition to U.S. manufacturers. The same is true of U.S. furniture in Canada. Given the sound basis for that competition, neither country's furniture industry should be threatened by a removal of all duties or their equalization. Further, it is obvious that consumers in both countries would be well served by a reduction in duties and resulting reduction in furniture prices.

The AFMA believes the time has come to allow U.S. furniture manufacturers to compete with Canadian manufacturers on the same basis our domestic manufacturers compete with each other. The Congress, in approving trade negotiating authority for the U.S., evidently agreed with this direction for our international trade policy. To date, however, there have been no concrete results.

Given the uncertain prognosis over the outcome of free trade negotiations, and concern over the precipitous increase in Canadian furniture imports in recent years, it is not unusual that the matter has attracted attention on Capitol Hill. Legislation has been introduced that would promote more equitable competition between the U.S. and Canada on furniture products (and also on certain products of the printing and recreational marine manufacturing industries) by moving to end the tariff disparity. S. 1341/H.R. 2602 would authorize free trade negotiations on furniture products between the U.S. and Canada. If a free trade agreement were not achieved, U.S. tariffs on furniture products would be gradually increased until they were at a level equal to Canadians tariff on American furniture products. At no time would S. 1341/H.R. 2602 cause U.S. tariffs to rise above the Canadian tariffs. The goal of the Small Business Bilateral Free Trade Act is free trade on furniture products with Canada, a step that would benefit manufacturers, retailers, and consumers in both countries.

CONCLUSION

The furniture industry, in recent years, has become more international in scope. Reflected both by inroads made by imported furniture into markets traditionally dominated by the U.S. furniture industry and by U.S. companies expanding their horizons overseas in search of new markets, the impact of trade-related policies cannot be overstated.

The behavior of the U.S. Government in the area of furniture trade has been exemplary: the U.S. has consistently lowered its effective tariffs on furniture over the past two decades through outright reductions, through the extension of very favorable tariff treatment to certain countries, and through its provision of duty-free status to certain developing countries -- even where those countries have become major international competitors in furniture (and other) trade.

However well-meaning these efforts are, they carry with them one fatal flaw. As practiced over the past two decades, with respect to the American furniture industry, the "free trade" and "lowered tariff" thrust of our government's trade policy has been too one-sided. U.S. backed agreements and Congressionally approved programs have hampered the ability of the U.S. furniture industry to compete in its own marketplace. They have also led to a partial restructuring of this industry not based upon the free flow of trade in international commerce. And all of this is occurring during a period predicted to be the "Golden Age of U.S. Furniture Manufacturing."

AFMA strongly supports the elimination of tariffs on furniture products between the U.S. and Canada. Free trade on furniture would eliminate the unfair Canadian tariff disparity and would allow U.S. manufacturers the opportunity to compete in the Canadian market. Conversely, a further lowering of U.S. furniture tariffs in Canadian goods would result in lower prices to American consumers of such goods. Further, AFMA urges that free trade on furniture products be achieved as expeditiously as possible, given the alarming rate of increase in the U.S./Canada furniture trade deficit over the last five years.

Finally, AFMA supports the Small Business Bilateral Free Trade Act (S. 1341/H.R. 2602) as a means of ensuring that our exports are accorded equitable treatment with regard to the Canadian market.

STATEMENT ON BEHALF OF DOMESTIC MEMBER COMPANIES
OF THE
AMERICAN IRON AND STEEL INSTITUTE
ON
U.S.-CANADA FREE TRADE AREA NEGOTIATIONS

This statement is on behalf of the domestic member companies of the American Iron and Steel Institute, in response to the Senate Finance Committee's request for public comment on the U.S.-Canada Free Trade Area (FTA) negotiations. Our comments are intended to restate our basic position on the proposed U.S.-Canada FTA, and to give the Committee our view of those principles that should apply to U.S. negotiating objectives.

First, with respect to our basic position, we have told both the Congress and the Administration on numerous occasions previously that we strongly oppose steel trade liberalization talks with Canada (or with any other country) as long as the U.S. and world steel crises continue unresolved. Freer steel trade in the U.S. market at this time would be contrary to the main goal of both the President's Steel Program and the Steel Import Stabilization Act of 1984. That goal remains: to limit steel imports from all major foreign suppliers, in order to provide the U.S. steel industry with a breathing space to restructure and modernize its facilities.

Therefore, we continue to oppose steel trade liberalization of any kind with Canada, as long as (1) the President's Steel Program is in effect, (2) the financial condition of domestic steel companies remains precarious and (3) there is a serious U.S.-Canadian dollar exchange rate imbalance.

Underlining our concern about freer steel trade with Canada are two facts: (1) Canada remains the largest foreign supplier of steel not yet covered by the President's Steel Program; and (2) finished steel imports from Canada have continued to surge to record levels. From 3.0 percent of the U.S. market in 1984 and 1985 -- which was at that time a record level -- finished steel from Canada jumped to 3.5 percent of the market in 1986 and is now at 4.3 percent through the first five months of this year.

With that as background, we believe the following principles should apply with respect to specific U.S. negotiating objectives.

- First, U.S. trade laws must not only be preserved but strengthened. Accordingly, there can be no special exemptions from any U.S. trade law for Canada or any other country -- and the U.S. must resist, as a top priority in these negotiations, any dispute settlement mechanism that would have the effect of diluting in any way freedom of action for U.S. petitioners to file and pursue trade cases under U.S. laws.

- Second, there must be no infringement of U.S. state and federal Buy American laws. These rules are (i) wholly consistent with the GATT, (ii) vital to the health of the domestic steel industry and, (iii) given the 10-1 size differential between the U.S. and Canadian procurement markets, impossible to trade off with buy Canadian provincial and federal laws to the net benefit of the United States.

- Third, the issue of Canadian government subsidies (such as those that were identified by the Commerce Department in a case involving Canadian oil country tubular goods) must be addressed. In addition, the issue of Canadian government subsidies should be addressed in its broadest context. This means recognizing that Canadian steel producers and other Canadian manufacturers have historically benefited from favorable government action in many areas, including: procurement, tax policy, antitrust enforcement, and funding for health and unemployment costs.

- Fourth, the U.S.-Canada Auto Pact (and particularly its discriminatory aspects, e.g., Canadian domestic content and value-added requirements) must be discussed, along with Canada's auto parts duty remission scheme for non-Pact members, which USTR has said is in violation of the GATT. The concern here is that there has been no systematic study of whether, and to what extent, these policies may be injuring domestic steel producers and independent U.S. auto parts suppliers.

- Fifth, if the U.S. government insists upon conducting negotiations affecting duties on steel products, there must be parity between U.S. and Canadian steel tariffs (not achieved in the 1973-79 Tokyo Round, when steel tariffs were lowered on average in the U.S. and Canada to rates of 4.4 and 8.7 percent, respectively). Moreover, given the continuing difficulties confronting domestic steel producers, existing levels of U.S. tariffs on steel must be maintained for the maximum period possible.

- Sixth, any changes in customs rules needed to implement the FTA must take great care to avoid harming domestic steel producers and the integrity of the President's Steel Program. In that regard, we fully support the U.S. Treasury Department proposal for a new Rule of Origin system to implement the U.S.-Canada FTA, which would use changes in classification under the Harmonized System as the basis for determining whether or not a product would be eligible for FTA benefits.

- Seventh, throughout the remainder of the free trade talks and the subsequent period of Congressional consideration, domestic steel producers and other U.S. manufacturers must be closely consulted. This is critical in light of past U.S. trade negotiations -- which have included trade-offs to the detriment of domestic steel producers -- and is needed to assure that any final agreement does not have the effect of further eroding the U.S. manufacturing base.

- Eighth, while exchange rate "policy" is being handled by Treasury Secretary Baker outside the context of the FTA negotiations, the substantial exchange rate imbalance between the U.S and Canadian dollars (i.e., the 75-cent Canadian dollar) must be corrected through a series of concrete steps similar to the coordinated actions taken to reduce the value of the U.S. dollar vis-a-vis the Japanese yen and the West German mark. Unless this is done, the U.S. could see its $12 billion bilateral trade deficit with Canada balloon still further.

AISI domestic member companies appreciate this opportunity to provide written comment to the Senate Finance Committee on the U.S.-Canada FTA negotiations.

ANPA
TO ADVANCE THE CAUSE OF A FREE PRESS

American Newspaper Publishers Association

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Jerry W. Friedheim
Executive Vice President

August 17, 1987

Senator Lloyd Bentsen
Chairman
Committee on Finance
SD-205, Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Bentsen:

The American Newspaper Publishers Association appreciates the opportunity to comment on the U.S. - Canada free trade agreement negotiations currently underway. ANPA encourages constructive bilateral talks between the two countries in hopes of reaching satisfactory agreements on a variety of trade issues.

ANPA is a non-profit trade association representing nearly 1,400 newspapers throughout North America. Membership accounts for more than 90 percent of U.S. daily and Sunday circulation.

ANPA's primary interest with respect to the U.S. - Canada free trade agreement is to preserve the 74-year old history of importing duty-free newsprint. In recognition of the public good involved in the free flow of information, Congress in the 1913 Tariff Act (Underwood Tariff) placed on the duty-free list printing paper which was "suitable for the printing of books and newspapers"; this covered virtually all newsprint. In 1922, the tariff description "standard newsprint paper" was created to designate duty-free newsprint.

ANPA strongly opposes any tax on imported newsprint, such as the import duty contained in trade legislation currently being considered by Congress that would fund a trade adjustment assistance program for workers dislocated by imported products. Imported newsprint does not displace any U.S. workers in the domestic newsprint industry.

In 1986, newsprint mills in the United States produced 5,108,000 tons operating at 94 percent of capacity.

1887-1987
A century of service to newspaper people

Because the U.S. newsprint industry does not have the capability to produce the needed amount of newsprint (almost 12 million tons in 1986), we import nearly 7 million tons of newsprint from Canada, all without tariff. (Newsprint capacity in the U.S. is increasing.)

On average, newspapers must import two-thirds of their newsprint requirements. ANPA estimates that the cost of imported newsprint in 1987 will be approximately $4 billion. Any import duty would have a significant effect on newspapers since newsprint costs represent about one quarter of their operating budgets.

The U.S. commitment to a free press is in stark contrast to the practice in some other nations in which controlling the price and supply of newsprint is common practice used to reward "friends" and punish "enemies." The proposed one-percent import duty on newsprint runs counter to a long standing U.S. policy, grounded firmly in First Amendment values and in economic necessity.

The American Newspaper Publishers Association believes that, should the United States reach a free-trade agreement with Canada whereby all tariffs and non-tariff barriers would be eliminated, that agreement should supercede the proposed import tariff in the Omnibus Trade Act of 1987, at least with respect to newsprint. The continuance of duty-free newsprint in the United States is essential to retain the freedom of the press guaranteed by our First Amendment.

ANPA hopes bilateral negotiations will result in progress toward reasonable solutions to this and other issues vital to our country, and more generally toward improved Canadian/American relations. We believe those talks are constructive and should go forward.

Sincerely,

Jerry Friedheim

Jerry W. Friedheim

COMMENTS BY THE AMERICAN PAPER INSTITUTE

ON

THE ESTABLISHMENT OF A U.S.-CANADA FREE TRADE AREA

SUMMARY

The American Paper Institute (API) believes that the negotiations to establish a U.S.-Canada Free Trade Area (FTA) could lead to an agreement which would be beneficial to our industry only if two particular conditions are met:

- The elimination of tariffs on all paper industry products by both countries, and
- The establishment of meaningful discipline over subsidies to their pulp and paper mills by federal and provincial authorities of Canada.

The United States market is very important to the Canadian pulp and paper industry. Last year, Canada shipped to the United States more than 55% of its total production of paper and paperboard and more than 80% of its total paper and board exports. The U.S. is also the largest pulp market for Canadian producers. The Canadian pulp and paper industry has been able to operate under what is essentially a free trade environment for its exports. In addition to wood pulp, the U.S. has no duty on newsprint, uncoated printing paper, and most paperboard. Only about 10% of Canadian paper industry shipments to the U.S. are subject to any import duty. Remaining tariffs, in the main, are less than half of Canadian tariffs on paper industry products.

By contrast, the Canadian paper industry continues to be shielded from U.S. exports by high tariff rates ranging from 6.5% to 10.2%. The bulk of the U.S. industry's $149 million in converted paper product exports to Canada face a 10.2% duty.

There is unanimity among all sectors of the paper industry to support an immediate drop to zero duty on all paper industry imports into the U.S. from Canada, if Canada agrees to do likewise immediately.

Removing all tariffs is not enough, however, and will not create a truly free trade environment. The industry believes that free trade also must be equitable trade. Canadian federal and provincial authorities have approved grants, interest free loans, and other forms of direct financial assistance to create large capacity expansion projects and to prop up old and inefficient mills. The scope of some of the new projects presents a significant threat to the U.S. paper industry, since most of the new capacity is clearly destined for the U.S. market.

The U.S. paper industry is concerned only with trade-distorting subsidies. The industry considers it crucial that an agreement by the federal and provincial Canadian governments to impose meaningful discipline over Canadian subsidies to their paper industry be included in any Free Trade Area arrangement.

On behalf of the U.S. paper industry, we are submitting a statement for the record on the establishment of a U.S.-Canada Free Trade Area (FTA). The American Paper Institute (API) is the national trade association representing U.S. companies that account for over 90% of U.S. production of pulp, paper and paperboard.

Broadly speaking, an open market between the two countries can help to elevate trade across the industrial spectrum to higher levels. Such an overall increase in trade could positively affect not only the paper industry's direct exports but its domestic business as well. This is the case because of the substantial contribution of "indirect" exports to the industry's economic health. We define indirect exports as domestic sales of paper and paperboard which are made because of export demand for the products of another industry. Examples of indirect exports of the paper industry include: packaging that is used either when goods go overseas, or when component parts are shipped domestically to a producer who will in turn export the final product; component parts made of paper and used in export products such as filters, insulation papers, etc.; and printing/writing paper used in export documentation.

In terms of the paper industry's direct exports, the API has taken the position that the Free Trade Area agreement could be beneficial to our industry only if two particular conditions are achieved through negotiations. These conditions relate to tariffs and subsidies.

For years, the API, on behalf of the U.S. paper industry, has urged the U.S. government to obtain reduction of Canada's high tariff rates in order to put U.S.-Canadian trade in paper industry products on a more equitable basis. We believe that these negotiations could meet one of our goals if they lead to the elimination of tariffs on _all_ paper industry products by both countries. But, to be a truly "free trade" arrangement, it must go beyond tariff barriers to deal also with such trade distorting practices as Canadian government _subsidies_ to domestic paper mills.

The U.S. paper industry's concerns will be met _if_ Canada agrees to impose meaningful discipline over subsidies of all types which are designed to improve the competitive position of its pulp and paper mills. Subsidized production capacity expansion, where output is destined for the U.S. or the third markets where we compete, is clearly trade distorting. It is our understanding that the negotiations are moving forward toward achievement of our tariff elimination objective. The U.S. paper industry continues to follow the negotiations closely in anticipation of a positive resolution of the subsidy issue. We also believe that there are several approaches to the question of subsidies that would clearly define them and eliminate those that are trade distorting by distinguishing them from mere incentives.

The United States market is very important to the Canadian pulp and paper industry. In 1986, the U.S. imported 9.7 million short tons* ($4.4 billion) of paper, paperboard and converted products from Canada. In fact, more than 55% of Canada's total paper and paperboard production and more than 80% of its exports were shipped to the U.S. For newsprint, Canadian shipments to the U.S. market were 72.6% of their production and for printing and writing paper, 52% of their production. Canadian printing and writing paper producers, in particular, have greatly benefitted from the recent growth in shipments to the U.S. market. Between 1981 and 1986, Canadian printing and writing paper exports to the U.S. more than doubled. In addition, Canada shipped about 4 million tons ($1.4 billion) of wood pulp to the U.S. last year, which represented nearly half of Canada's total wood pulp exports. Imports of converted products from Canada last year amounted to 121,332 tons (valued at $198.9 million). (Table 1 provides data on U.S.-Canada trade in paper industry products.)

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*Trade data in this paper are based on U.S. Bureau of Census and Canadian Pulp and Paper Association statistics.

The Canadian pulp and paper industry has been able to operate under what is essentially a free trade environment for its exports. In addition to wood pulp, the U.S. has no duty on newsprint and uncoated printing paper -- Canada's principal exports to the U.S. Other products, such as linerboard and recycled paperboard, also enter the U.S. duty free. Only about 10% of Canadian paper industry shipments to the U.S. are subject to any import duty.

With the final Tokyo Round concession rates now in effect, U.S. tariff rates on most paperboard products are at zero. The tariff rates on uncoated writing paper and coated printing paper, two major paper categories imported from Canada, have a duty of only 2.4% and 2.5%, respectively. Tariffs on cut-to-size writing paper are at 3.2%, while the duties on special industrial papers and converted paper products range from zero to a maximum of 5.8%, with most imports at the lower end of this range. (Table 2 shows comparative tariff rates on selected paper industry products for the U.S. and Canada.)

Canada is the single largest export market for U.S. paper, paperboard and converted products. In 1986, U.S. exports to Canada amounted to 724,700 tons ($464.8 million), or 15.5% of total U.S. export tonnage. Unlike the great dependence of the Canadian paper industry on the U.S. market, however, shipments to Canada represented less than 1% of the 71 million tons of paper and paperboard produced by U.S. companies last year.

In contrast to the openness of the U.S. market, the Canadian industry continues to be shielded from U.S. exports by high tariff rates. Canadian tariff rates on kraft linerboard, solid bleached board and most printing and writing paper, are at 6.5%. The duty on recycled paperboard is 9.2%, while the duty on cut-to-size printing and writing paper is 8%. The bulk of the $149 million in converted paper product imports from the U.S. have a tariff of 10.2%.

Overall, the elimination of existing Canadian tariffs is expected to increase U.S. paper industry shipments to Canada. As in any broad economic sector such as the paper industry, the impact of a Free Trade Area on domestic producers is expected to vary by such factors as the type of paper or paperboard grade produced, size of company, level of integration, whether a multi-product or a single product producer, etc. Some producers, particularly in the printing and writing sector of the industry, at one time expressed reservation about the desirability of removing the remaining U.S. tariffs on printing and writing paper imports from Canada. However, there is unanimity among all sectors of the industry -- even the printing/writing sector -- to support an immediate drop to zero duties on all paper industry imports into the U.S. from Canada, _if_ Canada immediately does likewise.

If the elimination of Canadian tariffs is to have maximum beneficial effect for U.S. paper industry exporters, and if the lowering of U.S. tariffs is not simply to spur continued expansion of Canadian producers' inroads into the U.S. market, the current continuing weakness of the Canadian dollar vis-a-vis the U.S. dollar needs to be addressed and more equitable and stable exchange rates sought.

Removing all tariffs on the industry's products in both countries is not enough, however, and will not create a truly free trade environment. We are pleased that U.S. negotiators also have focused on the issue of non-tariff barriers and other trade practices including, importantly, Canadian subsidies to the paper industry, which give Canadian producers an unfair competitive advantage. The U.S. paper industry considers it crucial that an agreement by the federal and provincial Canadian governments to impose meaningful discipline over such subsidies be included in any Free Trade Area arrangement with Canada.

The initial Canadian government aid programs in the 1970's were designed to assist pulp and paper mills to modernize, with primary emphasis on capital projects where no monetary returns were available, such as pollution controls. More recently, Canadian federal and provincial authorities have approved grants, interest-free loans, and other forms of direct financial assistance to create large capacity expansion projects and to prop up old and inefficient mills. In some cases, it is doubtful whether an expansion project would have advanced beyond the feasibility stage if direct government assistance had not been provided.

The scope of some of the new projects presents a significant threat to the U.S. paper industry. In the 1986-89 period alone, Canadian printing and writing paper capacity is forecast to increase by 1.2 million tons, or an annual rate of 12.6%, to reach 3.9 million tons, significantly more than can be absorbed by the small Canadian market. While not all new capacity is subsidized, the sheer volume of expansion increases the likelihood that the trading patterns will be more distorted than would be the case if market forces alone were at work.

Since most of the new capacity is destined for export markets, with the U.S. -- as Canada's largest market -- clearly the likely target, our industry considers Canadian government financial assistance to the paper industry to be an export subsidy which gives Canadian producers an unfair competitive edge in the

U.S. market as well as third country markets. Moreover, the large increase in subsidized additional capacity at a time when growth in U.S. demand for printing and writing paper is not expected to increase at the high rate of recent years, could disrupt the U.S. market. We believe that it is possible to define which subsidies are trade distorting and which are mere incentives not impacting trade to any significant degree. Our industry hopes that this approach will be vigorously pursued by the negotiators on both sides.

In summary, the U.S. paper industry believes that only a comprehensive U.S.-Canada Free Trade Area agreement that removes all tariffs as well as other unfair trade practices would benefit our industry.

Table 1

U.S. TRADE WITH CANADA
IN PAPER INDUSTRY PRODUCTS
- 1985 -

($ millions)

	Exports	Imports	Balance
Wood pulp	79.5	1,385.9	- 1,306.4
Newsprint	3.3	3,496.9	- 3,493.6
Printing, writing and related paper	118.6	435.6	- 317.0
Other paper	102.0	98.3	+ 3.7
Paperboard, total	98.2	42.7	+ 55.5
Converted paper and paperboard products	151.7	141.7	+ 10.0
All other*	40.9	117.8	- 76.9
TOTAL	594.2	5,718.9	- 5,124.7

(Short Tons)

	Exports	Imports	Balance
Wood Pulp	203,934	4,020,736	- 3,816,802
Newsprint	3,757	8,117,986	- 8,114,229
Printing, writing and related paper	133,800	841,500	- 707,700
Other paper	134,197	172,644	- 38,447
Paperboard, total	282,658	154,360	+ 128,298
Converted paper and paperboard products	156,372	93,747	+ 62,625
All other*	249,526	498,852	- 249,326
TOTAL	1,164,244	13,899,825	-12,735,581

*Includes construction paper and paperboard.

Source: U.S. Bureau of Census
American Paper Institute

Table 2

Comparison of Duty Rates on Selected Paper Industry Products

- 1987 -

Product	United States	Canada
Wood pulp	0	0
Newsprint	0	0
Printing paper (uncoated)	0	6.5% (1)
Printing paper (coated)	2.5%	6.5% (2)
Writing paper (uncoated)	2.4%	6.5%
Writing paper, cut-to-size	3.2%	8%
Sack kraft	0	0
Tissue stock	0 - 3.5%	6.5 - 9.2%
Tissue and toweling articles (including diapers)	0 - 5.3%	10.2%
Special industrial papers	0 - 5.6%	0 - 10.2%
Kraft linerboard	0	6.5%
Bleached paperboard	0	6.5%
Milk carton blanks	3%	10.2%
Recycled paperboard	0	9.2%
Corrugating medium	4%	4%

(1) Canada has a zero tariff on uncoated groundwood printing paper.

(2) Canada has a 2.5% tariff on coated groundwood printing paper.

Source: American Paper Institute

STATEMENT OF

AMERICAN PLYWOOD ASSOCIATION

TACOMA, WASHINGTON

CONCERNING NEGOTIATIONS TOWARD A PROPOSED U.S.-CANADA FREE TRADE AGREEMENT

The American Plywood Association (APA) has sought for a number of years to negotiate harmonized standards for plywood in the United States and Canada. These efforts have not succeeded. Present standards bar most U.S. plywood from Canada, although Canadian plywood is freely usable in the United States. As a result, tariffs between the two countries remain high and there is normally little movement of plywood either way across the border.

U.S. and Canadian plywood standards are significantly different in two key respects: Veneer -- Canada doesn't recognize D-grade veneer, a component of more than 70 per cent of U.S.-made plywood, although the species of some trees used are the same or similar in both countries and the applications of the plywood are the same; Species -- Canadian standards recognize only softwood species indigenous to Canada, so Southern Yellow Pine, used in about half of U.S. plywood, can't enter Canada.

The building code and other regulatory bodies of the United States, including the FHA, have means by which new products not governed by established standards can be introduced into the building process. In order to gain access to the Canadian market, however, it is necessary to show conformance to established Canadian standards. There is no mechanism in the National Building Code of Canada comparable to that existing in the United States for gaining acceptance of non-standard products.

Despite its formidable standard and code barriers, Canada has accepted non-qualifying U.S. plywood when Canadian mills are strike.

If tariffs are eliminated without satisfactory resolution of the standards issue, Canadian plywood would be able to enter the U.S. market without any compensating entry by U.S. plywood into Canada. This could easily force closure of five or six U.S. mills at a loss of $190 million in direct mill sales and the loss of 1,300 mill jobs and $30 million in wages.

Based on developments in recent months, APA sees little chance that the standards issue can be settled in the context of the present U.S.-Canada Free Trade Agreement negotiations. Until the standards issue is conclusively resolved in favor of harmonized standards, APA is opposed to any reduction in tariffs for plywood. If the standards issue is resolved, APA would not object to reduction or elimination of plywood tariffs between the two countries.

I. Introduction.

The American Plywood Association (APA) is the principal trade association for the U.S. structural panel industry. It is a recognized testing and standards-setting organization, conducts a major on-going national and international marketing program, and actively participates in various international forums related to trade and use of structural panels.

APA has sought for a number of years to negotiate harmonized standards for plywood in the United States and Canada. Present standards bar most U.S. plywood from Canada, although Canadian plywood is freely usable in the United States. Establishing similar or identical standards would both open the market in Canada for U.S. plywood and enhance the marketing of North American plywood in third countries. To date, these negotiating efforts have not succeeded. As a result, tariffs between the two countries remain high and there is normally little movement of plywood either way across the border.

Based on developments in recent months, APA sees little chance that the standards issue can be settled in the context of the present U.S.-Canada Free Trade Agreement (FTA) negotiations. Until the standards issue is conclusively resolved in favor of similar or identical standards, APA is opposed to any reduction in tariffs for plywood. If tariffs were reduced or eliminated without accomplishing harmonization of standards, the trade opening would strictly be one-way: from Canada to the United States. At such point as the standards issue is resolved, APA would not object to reduction or elimination of plywood tariffs between the two countries.

II. Present U.S.-Canada Trade in Structural Panel Products.

A. Description of Products.

Structural panels include softwood plywood, which is made from sheets of wood veneer, and more recently developed panel products such as oriented strand board (OSB) and waferboard, made from strands and wafers of wood respectively. These panels are most typically 4 feet wide, 8 feet long, and between 1/4 inch and 3/4 inch thick. They are used principally for construction, with significant use also in industrial applications and furniture construction. Waferboard and OSB are substitutable for plywood in many applications where appearance is not a factor.

B. Tariff Barriers.

The softwood plywood at issue is item 240.21 of the Tariff Schedules of the United States (TSUS). The duty for such plywood from Canada is 20 per cent. The duty for such plywood moving from the United States into Canada is 15 per cent.

Waferboard and OSB fall within TSUS item 245.50. The duty for such items from Canada is 4 per cent. The duty for such items moving from the United States into Canada is 7 per cent, with a reduction to 4 per cent scheduled to be in place by 1990.

C. Nontariff Barriers.

Canadian softwood plywood, waferboard and OSB face no product standard or building code restrictions in the United States that prevent their entry.

Canadian standards, however, expressly prevent more than 70 per cent of U.S. plywood from entering, as discussed below.

D. Volume.

The following table shows the very minor role of typical plywood trade between the United States and Canada (all figures are millions of square feet, 3/8" basis):

U.S. Softwood Plywood (TSUS 240.21)	
Present annual manufacturing capacity	25,789
Present annual production	22,088
Normal annual exports to Canada	25
U.S. Waferboard/OSB (TSUS 245.50)	
Present annual manufacturing capacity	4,126

Present annual production	3,545
Normal annual exports to Canada	NA*

Canadian Plywood (TSUS 240.21)	
Present annual manufacturing capacity	2,430
Present annual production	1,876
Normal annual exports to U.S.	20

Canadian Waferboard/OSB (TSUS 245.50)	
Present annual manufacturing capacity	2,280
Present annual production	1,522
Normal annual exports to U.S.	700

Thus, U.S. exports to Canada typically account for only a small fraction of one per cent of U.S. production. Canadian plywood exports to the United States are less than one per cent of Canadian production, but Waferboard/OSB exports are nearly half of Canadian production.

III. Pre-Free Trade Agreement Attempts to Reduce Barriers.

During the 1980 Tokyo Round of multilateral trade negotiations, U.S. and Canadian negotiators agreed to equalize softwood plywood tariffs at 8 per cent by January 1, 1990, down from the then-existing and still-existing rates of 20 per cent in the United States and 15 per cent in Canada. This reduction was conditioned on "mutually satisfactory progress" in developing a common North American plywood standard by January 1, 1983.

Meetings between U.S. and Canadian producers during 1981 and 1982 were unsuccessful in reaching agreement on common standards.

Other attempts since then by APA and the U.S. industry have been similarly unsuccessful. The issue arose again last year with the initiation of the FTA negotiations.

IV. The Standards Issue.

Standards and codes in the construction industry determine whether a particular product can be used for a particular application. Standards are either prescriptive (prescribe how the product is to be manufactured) or performance (minimum requirements for how the manufactured product performs). Codes specify what standards a product must meet, and can provide a means for qualifying new products for which standards have not been established.

A. Plywood Standards.

A single plywood standard exists in the United States. This is U.S. Product Standard PS 1-83, Construction and Industrial Plywood, and is promulgated by the U.S. Department of Commerce under the Voluntary Product Standards program. Plywood may satisfy either prescriptive requirements or performance requirements.

Canada has separate prescriptive standards for the manufacture of Douglas fir plywood and for other softwood plywood.

Though by no means identical, both the U.S. and Canadian plywood standards have similar requirements for a number of aspects of plywood manufacture, such as panel thickness and gluebond requirements.

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* Not available; estimated 3.

The standards are significantly different, however, in two key respects:

* Veneer. Veneer is the thin sheets of wood (typically 1/10 of an inch thick) that are peeled from a log in a process that looks something like unrolling paper towels. The veneer is then stacked and glued to form plywood. The U.S. standard recognizes four grades of veneer--A, B, C and D. Grade A has the fewest defects, grade D the most. The Canadian standard recognizes only Grades A, B and C, which are similar but not identical to those three U.S. grades. Plywood is named by the grades of veneer on its front and back faces. Plywood to be used with one face exposed typically would be A-C. Most plywood used in construction, however, is used for sheathing, such as between the inner wall and outer wall covering of a house. No surface is exposed. The most common sheathing grade manufactured in the United States is C-D. But C-D plywood can't enter Canada because Canada doesn't recognize D-grade veneer, although the species of trees used are the same or similar in both countries and the applications of the plywood are the same. D-grade veneer is a component of more than 70 per cent of U.S.-made plywood that is thus ineligible for entry into Canada.

* Species. Canadian standards recognize only softwood species indigenous to Canada. As a result, Southern Yellow Pine, used in about half of U.S. plywood, is not recognized and can't enter Canada, although it is competitive with U.S.-made Douglas fir plywood on a performance basis.

There is current activity within the Canadian Standards Association aimed at the development of performance standards based on the structural panel performance standards developed by APA. This is being encouraged by the Canada Housing and Mortgage Corporation (the Canadian equivalent of the U.S. FHA). However, the latest draft of this standard still excludes D-grade veneer. The Canadians apparently also are concerned that adopting performance standards that accommodate D-grade veneer would be detrimental to the long-term durability of plywood sheathing panels. APA finds no basis for that concern. C-D grade has been used for sheathing in U.S. construction for more than 30 years.

B. Waferboard/OSB Standards.

U.S. waferboard and OSB is mostly produced under performance standards published by APA and recognized by all code authorities and HUD/FHA in the United States. Some waferboard also is produced in accordance with a standard of the American National Standards Institute. The ANSI standard measures performance in terms of arbitrary strength and stiffness rather than actual end-use.

Canadian waferboard and OSB are produced in accordance with a standard very similar to the ANSI standard.

C. Code Requirements.

The building code and other regulatory bodies of the United States, including the FHA, have means by which new products not governed by established standards can be introduced into the building process. Individual manufacturers in Canada have used this process for introducing their products into the U.S. market.

In order to gain approval under the National Building Code of Canada, however, it is necessary to show conformance to established Canadian standards. There is no mechanism in Canada comparable to that existing in the United States for gaining acceptance of non-standard products.

Additionally, there are some emerging code requirements in Canada for testing and product certification by organizations accredited by the Standards Council of Canada (SCC). Council accreditation is limited to "organizations in Canada". APA, which has a Canadian subsidiary and an office in Canada, is seeking such accreditation, but has been rejected to date on the basis that it is not a "Canadian organization." There are no comparable restraints against Canadian organizations performing testing and product certification pursuant to U.S. requirements.

V. The Canadian Ability to Waive Standards When Convenient.

Despite its formidable standard and code barriers, Canada has shown a great willingness to accept non-qualifying U.S. plywood when it suits Canadian needs.

These needs have arisen during Canadian wood products strikes beginning in 1975. During those strikes, the Canada Housing and Mortgage Corporation, which administers the Canadian Building Code, has permitted U.S. panels made with Southern Yellow Pine or D-grade veneer to be used in Canadian construction due to strike-created shortages.

The most recent of those strikes occurred during the second half of 1986. As a result, U.S. exports to Canada soared, and for all of 1986 were nearly quadruple the normal level of 1985. This high rate continued during the first two months of 1987 as U.S. suppliers completed the filling of contracts made prior to the end of the strike. In the last several months, however, exports have reverted to approximately the 1985 non-strike rate.

The ready acceptance of this U.S. plywood confirms that Canadian builders and mortgage lenders do not have a practical problem with the U.S. standards. The only group with a problem are the Canadian plywood manufacturers, for whose benefit the standard was quickly reimposed after the end of their strike.

VI. Economic Harm if Tariffs Are Eliminated Without Resolving Standards Issue.

If tariffs are eliminated without satisfactory resolution of the standards issue, Canadian plywood would be able to enter the U.S. market without any compensating entry by U.S. plywood into Canada.

Capacity and production figures indicate that Canada could generate one billion square feet or more additional plywood. If half of that came into the U.S. market, it could easily force closure of five or six U.S. mills at a loss of $190 million in direct mill sales and the loss of 1,300 mill jobs and $30 million in wages. A typical mill also impacts at least 50 more workers in forests, 30 workers in distribution and many more in the community where the mill is located.

VII. Conclusion.

Free trade between the United States and Canada on structural panels cannot take place until the nontariff barriers are removed and all U.S. structural panels are accepted by Canadian codes. If the current U.S. tariff is canceled, there will be no reason for Canadians to take any further action. They will have access to our markets and we will continue to be excluded from theirs.

The U.S. structural panel industry therefore believes that no further tariff changes should be negotiated on structural panels under TSUS 240.21 and TSUS 245.50 until standards harmonization is accomplished and appropriate changes in the Canadian building codes and lab testing programs are made to remove the non-tariff barriers on U.S. structural panels.

APA asks the Senate Finance Committee to support this position.

AMERICAN TEXTILE MANUFACTURES INSTITUTE
COMMENTS IN RE. U.S.-CANADA FREE TRADE AREA

SUMMARY STATEMENT

The American Textile Manufacturers Institute (ATMI) on behalf of its member firms and their workers, asserts that the United States of America should not enter into a Free Trade Area (FTA) agreement with Canada. Such an agreement would be damaging to the American textile industry and is not in the best interest of American industry in general.

The American textile industry and its workers have already been greatly disadvantaged and injured by imports; a U.S.-Canada FTA would only add to that injury. The potential for unfairly traded imports into the United States under the auspices of an FTA cannot be ignored and are likely to be permitted in an FTA with Canada.

These comments are submitted by the American Textile Manufacturers Institute, Inc., (ATMI) on behalf of its member firms, which represent more than eighty five percent of the output of the domestic textile mill products industry.

ATMI is opposed to the establishment of a U.S.-Canada Free Trade Area (FTA) on the grounds that it will not result in a net economic benefit to the domestic textile industry or its workers and has the potential to inflict severe economic damage instead. ATMI also believes that a U.S.-Canada FTA is not in the economic interest of the United States as a whole, either.

With regard to the larger, national interest first, certain relevant facts surrounding the relationship between our two countries should be considered in evaluating the necessity of an FTA. The United States and Canada share the largest undefended border in the world. They have enjoyed political and social harmony for almost two centuries, longer than any other two neighbor states in the world. They are each other's largest trading partners. Their citizens are free to cross each other's border without let or hindrance. While pursuing their own national interests and forging their own political, social and economic systems and policies, both countries have prospered and grown and today stand in the front rank of the community of nations. All this was accomplished without an FTA, which would therefore appear to be not only superfluous but clearly unneccesary.

Another, more immediate concern arising from a consideration of a U.S.-Canada FTA is its effect on current U.S. trade performance. A nation that is about to pile a $170 billion trade deficit on top of a $160 billion trade deficit recorded during the preceding year, which was preceded by a $148 billion deficit the year before, ought not to be seeking ways to increase that deficit, and that is surely what will happen if a U.S.-Canada FTA is enacted. The misalignment of our currencies, which are supposed to be at parity, plus the fact that the U.S. market is ten times greater than the Canadian market, virtually assures that, under an FTA, trade flows will be heavily in Canada's favor. This will redound to the benefit of Canada, our good and valued neighbor and friend, but will not benefit American workers whose jobs ought to have the highest priority for American policy makers.

Even if all other elements of our trading relationship - wage rates, exchange rates, subsidies, financing costs and the like -- were equal, which they clearly are not, the mere fact that an FTA would grant Canada unencumbered access to a market ten times larger than the one we would gain access to means that the United States cannot possibly achieve equity and parity under such an arrangement. On this basis alone a U.S.-Canada FTA makes little or no economic sense.

Furthermore, should a U.S.-Canada FTA be enacted, the United States would then be under irresistable pressure to forge similar ties with other countries. Even before the conclusion of negotiations with Canada, there have been proposals for and overtures made on behalf of FTAs with Mexico, Uruguay, Taiwan and the member states of ASEAN. Free Trade arrangements with these countries, with their lower levels of economic development and purchasing power relative to the U.S. and their vast pools of low-wage labor to fuel their export-driven economies, would be economic suicide for the United States. Yet the proponents of such arrangements need little more than a U.S.-Canada FTA as justification for their proposals. These are ideas whose time should never come.

The U.S. textile industry is particularly concerned about the effect of a U.S.-Canada FTA on its business and the livelihoods of its 730,000 workers. As the accompanying exhibits A and B show, the industry has been for several years and continues to be severely damaged by an unrelenting flood of imports. Canada is among the more than 160 countries shipping textiles and apparel to the United States. Today Canada is our eighth largest supplier of textiles and apparel and is among the fastest growing of all suppliers. During the first half of 1987 textile and apparel imports from Canada were 29% ahead of prior year levels. This increase comes on the heels of a 43% increase registered during calendar year 1986 (Exhibit C).

These imports would only show further dramatic increase under the auspices of an FTA since import duties would be greatly reduced or eliminated altogether, thus inflicting terrible damage on the domestic industry and its workers. Beside tariff reduction/elimination, there are other, even more compelling factors which will virtually assure an increase in textile and apparel imports from Canada. These have to do with transshipments and permissive rules of origin.

Transshipment of textiles and apparel from countries under restraint (quota) through third countries and then into the United States is one of the oldest and most pervasive forms of import fraud and circumvention which the domestic industry has to contend with. It is well known that there has been and continues to be transshipment of textiles and apparel through Canada. Furthermore, the incentive offered by an FTA would prove irresistable to unscrupulous and dishonest traders in both countries. With over one hundred ports of entry on the U.S.-Canada border, the U.S. Customs Service, already overburdened and undermanned, would be unable to cope effectively with the increased transshipments that would inevitably result from a U.S.-Canada FTA.

A possibly even greater danger is posed by the current country of origin regulations applied to U.S. textile and apparel imports. Under these regulations, it would be perfectly permissible for cheap inputs - yarns and fabric - to be imported into Canada and made up into textile and apparel products for export to the United States. These inputs could be illegally subsidized and/or dumped by the exporting producers, but there would be little incentive for Canada to move against them (a difficult, tortuous process at best) since they wouldn't be entering and disrupting the Canadian market; like transshipments, they would merely be passing through on their way to the United States. In this context, it should also be noted that Canada's system of import controls on low-priced yarns and fabrics from low wage countries is much looser and more permissive than the United States'.

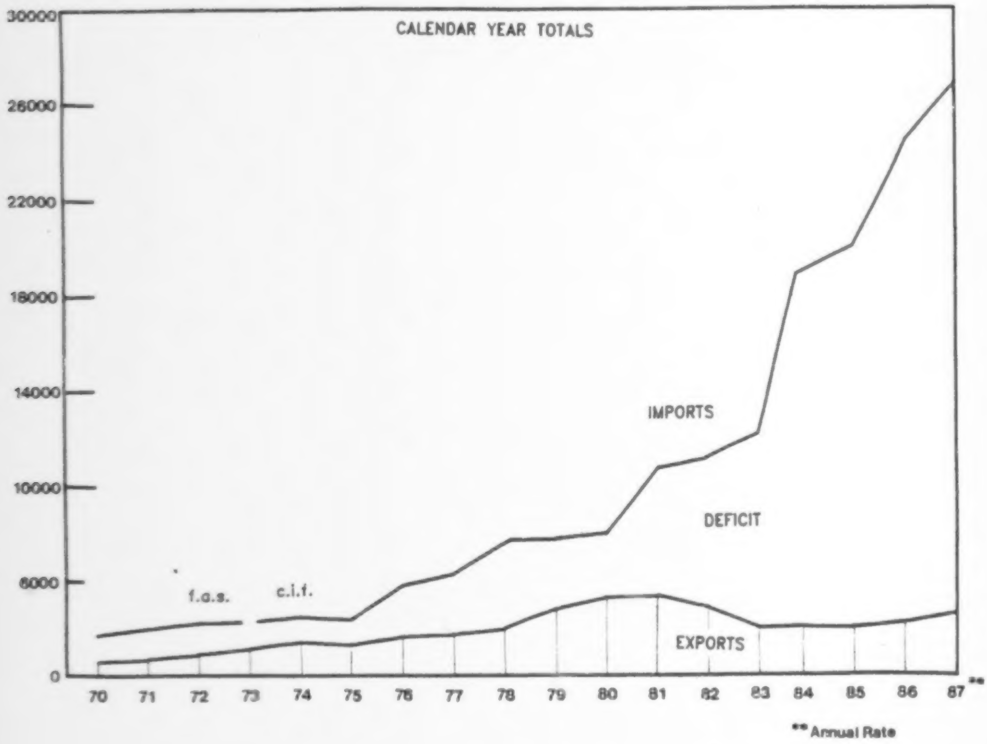
Aware of the frightening potential of the likely scenario described here, domestic industry representatives have been working with officials of the Office of the United States Trade Representative and the Department of the Treasury to formulate rules of origin to govern a U.S.-Canada FTA which would eliminate such practices and save the industry and its workers harmless from the effects of such unfair trade. There is no assurance, however, that the industry's needs in this regard will be adequately addressed in an FTA agreement. The best assurance would be not to enact an FTA in the first place.

The pitfalls and dangers posed by the enactment of a U.S.-Canada FTA are obvious and ominous. The potential benefits are less clear. They are, in fact, practically invisible. It is apparent to ATMI that the potential economic damage suffered by American workers as the result of an FTA with Canada would more than offset any gains to be won from such an agreement. On behalf of its member firms and their workers, ATMI therefore urges the Committee on Finance to withold recommendation of the enactment of a United States-Canada Free Trade Area agreement.

EXHIBIT A

U.S. TEXTILE AND APPAREL TRADE

C.I.F. IMPORT VALUES
F.A.S. EXPORT VALUES
(millions of dollars)



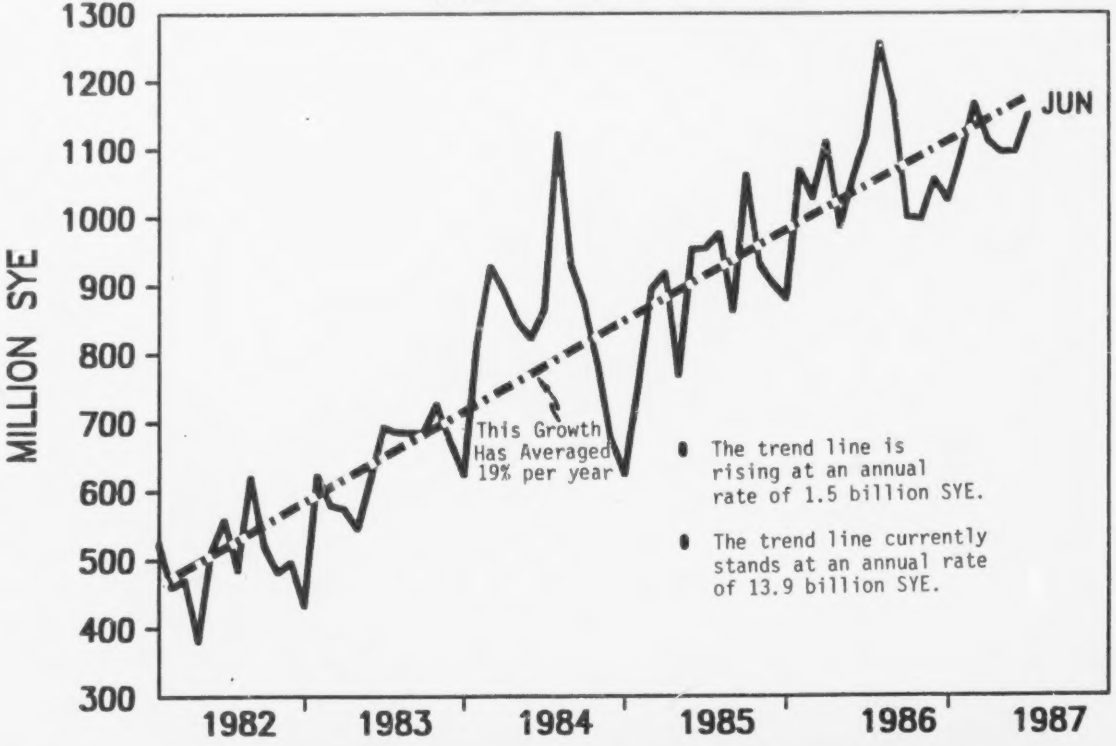
	TEXTILES			APPAREL			TEXTILES & APPAREL		
	IMPORTS	EXPORTS	TRADE BALANCE	IMPORTS	EXPORTS	TRADE BALANCE	IMPORTS	EXPORTS	TRADE BALANCE
	F.A.S. VALUES								
1970	1,135	603	- 532	1,267	200	-1,067	2,402	803	-1,599
1971	1,392	632	- 760	1,521	204	-1,317	2,913	836	-2,077
1972	1,526	779	- 747	1,883	240	-1,643	3,409	1,019	-2,390
1973	1,568	1,225	- 343	2,168	278	-1,890	3,736	1,503	-2,333
	C.I.F. VALUES								
1974	1,752	1,795	+ 43	2,517	400	-2,117	4,269	2,195	-2,074
1975	1,336	1,625	+ 289	2,826	403	-2,423	4,162	2,028	-2,134
1976	1,791	1,970	+ 179	3,938	510	3,428	5,729	2,480	-3,249
1977	1,939	1,959	+ 20	4,493	608	-3,885	6,432	2,567	-3,865
1978	2,400	2,225	- 175	6,108	677	-5,431	8,508	2,902	-5,606
1979	2,399	3,189	+ 790	6,291	931	-5,360	8,690	4,120	-4,570
1980	2,676	3,632	+ 956	6,849	1,202	-5,647	9,525	4,834	-4,691
1981	3,250	3,619	+ 369	8,008	1,232	-6,776	11,258	4,851	-6,407
1982	3,000	2,784	- 216	8,703	953	-7,750	11,703	3,737	-7,966
1983	3,460	2,368	-1,092	10,292	818	-9,474	13,752	3,168	-10,585
1984	4,874	2,382	-2,492	14,513	807	-13,706	19,387	3,189	-16,198
1985	5,274	2,366	-2,908	16,056	755	-15,301	21,330	3,121	-18,209
1986:	6,151	2,570	-3,580	18,554	900	-17,652	24,705	3,469	-21,255
1st Q	1,503	622	-881	4,298	204	-4,094	5,802	826	-4,975
2nd Q	1,515	656	-860	4,087	236	-3,852	5,603	891	-4,711
3rd Q	1,608	628	-980	5,502	226	-5,276	7,111	854	-6,257
4th Q	1,524	665	-859	4,666	234	-4,432	6,190	879	-5,292
1987:									
1st Q	1,628	673	- 955	5,100	240	-4,860	6,728	826	-5,815

SOURCE: U.S. Department of Commerce, FT-135, FT-140, SITC Classification 65 & 84. Data are in millions of dollars.

EXHIBIT B

TEXTILE AND APPAREL IMPORTS*

MILLION SYE MONTHLY



This Growth Has Averaged 19% per year

- The trend line is rising at an annual rate of 1.5 billion SYE.
- The trend line currently stands at an annual rate of 13.9 billion SYE.

* COTTON, WOOL AND MAN MADE FIBER ONLY

EXHIBIT C

U.S. TEXTILE AND APPAREL
IMPORTS FORM CANADA*

MILLION SQUARE YARDS EQUIVALENT

1980	134.0
1981	117.5
1982	138.5
1983	161.9
1984	299.6
1985	254.0
1986	364.6
1st 6 mos. 1986	169.7
1st 6 mos. 1987	218.9

* Cotton, Wool and Man-Made Fiber

Comments of
American Trading Transportation Company, Inc.
Concerning
U.S./Canada Trade Area Agreement Negotiations
Senate Committee on Finance
August 17, 1987

American Trading Transportation Company, Inc. and its affiliates are the owners and operators of five unsubsidized U.S. flag tankers ranging in size from 34,124 to 57,884 deadweight tons. All of our tankers have domestic coastwise trading privileges. Three of our five tankers are extremely modern diesel vessels, having been built and delivered in 1982 and 1983. Recently we have been advised that the U.S.-Canada Trade talks have included a proposal that the U.S. coastwise trade be opened up to Canadian vessels. We believe that such a decision would destroy the U.S. flag fleet and we therefore wish to object to it in the strongest terms.

The reservation of ocean commerce between U.S. ports to U.S. flag shipping is a basic and long standing element of maritime policy on the grounds of national security. Congress clearly enumerated this policy, starting with the Merchant Marine Act of 1920 and has repeated it many times since, most recently by the passage of legislation forbidding the use of funds to implement Construction Differential Subsidy (CDS) Repayment. In addition, countless letters, signed by Senators and Representatives too numerous to mention, have been sent to various offices of the Executive branch reemphasizing this policy. It is therefore staggering that the Executive branch, in its trade negotiations with Canada, would have the impudence to even consider for discussion so fundamental a policy of our government.

Opening the Jones Act trades to Canadian flag carriers would no doubt deal a death blow to the U.S. flag fleet. Already rocked by declining cargoes, changing transportation patterns and illegal avoidance of Jones Act requirements, U.S. flag shipping companies simply could not withstand encroachment on what is left of their trade by Canadian flag vessels. One of American Trading's vessels has been without employment for nearly a month and year-to-date our other vessels have been unemployed for over 100 days. Canadian flag vessels already enjoy the lion's share of the bilateral trade between the U.S. and Canada because of their lower wage costs and subsidized shipbuilding industries. Therefore, opening up domestic U.S. trade to these vessels would surely push the U.S. carriers from the trade. Even worse, such a change in policy would invite flag of convenience operators to flag their vessels Canadian simply for the purpose of being able to enter a new market, the U.S. domestic coastwise trade, all to the detriment not only of the U.S. fleet, but also of the Canadian fleet.

From a precedent standpoint, such a policy change would also be devastating since it would only be a matter of time before other trading partners asked for and received similar concessions. Most logical, and first in line, would be Mexico, given her convenient access to U.S. Gulf intercoastal waterways and ports.

The recent, alarming tendency of the Executive branch to "take matters in their own hands" contrary to the will of Congress has been highlighted recently by the Iran hearings as well as by the reflagging of Kuwaiti tankers in a manner contrary to our own regulations. For short term gain or advantage, the Administration seems willing to sacrifice virtually any policy or ignore any law. Congress simply must not tolerate such an obvious breach of their authority. Congress must control the Executive Branch departments which seem dedicated to fostering foreign interests rather than the national interests of the population.

It is a long recognized maritime principal that nations have a sovereign right to reserve domestic trade for their own national fleets in order to ensure the availability of a core fleet of oceangoing vessels and the experienced officers and crew to man them. This policy, long rooted in our history as well as in our laws, should not now be sacrificed in favor of some short-term, short-sighted trade objectives of the Administration.

Very Truly Yours,

Donald R. Yearwood
President

U.S. - CANADA FREE TRADE NEGOTIATIONS

Statement of
AMERICAN TRUCKING ASSOCIATIONS

Mr. Chairman and members of the Committee on Finance, as President and Chief Executive Officer of the American Trucking Associations, I am submitting this statement on behalf of the American Trucking Associations ("ATA") to present the views of the United States trucking industry in support of the U.S.-Canada Free Trade Talks.

Through its 51 affiliated trucking associations located in every state and the District of Columbia, 10 affiliated conferences, and several thousand individual motor carrier members, ATA represents every type and class of motor carrier in the country, for-hire and private; regulated and exempt. Thus, ATA is uniquely qualified to articulate the views of industry with respect to the trade talks.

The trucking industry, both U.S. and Canadian, carry the vast majority of manufactured goods which cross the U.S./Canadian border. Thus, any increase in trade between the two countries most likely will increase the tonnage of goods to be transported by truck and will be good for the trucking industry. Thus, we support the aims of the talks to increase trade between the two countries.

Our chief concern is that U.S. truckers be able to compete on an equitable basis with their Canadian counterparts for a fair share of the market. Prior to the enactment of the Motor Carrier Act of 1980, the econcmic regulatory schemes in the United States and Canada were nearly, although not precisely, identical. They were both characterized by narrowly defined operating authorities, limited entry and tight regulation. The major difference between the two schemes was the means of implementation. While interstate operating authority in the U.S. is granted by the Interstate

Commerce Commission ("ICC"), the Canadian equivalent -- extra-provincial operating authority -- is regulated by the individual provinces.

Following enactment of the 1980 legislation, U.S. regulation of the motor carrier industry changed dramatically. Entry requirements are substantially relaxed and the ICC engages in little, if any, active enforcement of the remaining laws and regulations. In contrast, the Canadians have continued their traditional regulatory scheme.

The result of this disparity has been disclosed in a study done on behalf of the Ontario Transportation Board. The study revealed that the Canadians share of the trans-border trucking market had grown from forty-four percent (44%) in 1979 (prior to the U.S. easing of regulations) to fifty-two (52%) in 1984. The study concludes that the growth in the Canadians' share of the market was largely due to eased entry in the United States for Canadian carriers. Over 1,000 Canadian carriers have received broad U.S. operating authority from the Interstate Commerce Commission during the 1980-86 period. Canadian regulation has remained extremely strict during this time period. U.S. carriers have had a difficult time in obtaining operating authority and the scope of that authority granted is narrow. Thus, our carriers have suffered competitively over the past 7 years.

The actions of the Canadian federal government appear to be on the way to resolving the disparity problem. The Canadian parliament is expected to enact the Motor Vehicle Transport Act, in the very near future. If enacted, the new law will put in place federal standards governing the licensing of extra-provincial motor carrier transportation in Canada. The legislation would result in an entry system in Canada similar to that in the U.S. beginning in January 1, 1987, and would create a regulatory scheme equivalent to the ICC's current implementation of the Motor Carrier Act. The enactment and implementation of the Transport Act would result in the "level playing field" that U.S. carriers have sought in the U.S./Canadian trucking market since 1980.

The Canadian provinces would retain the right to regulate intra-provincial trucking, just as the individual states retain that right in the United States. ATA supports allowing the state or provincial government to determine the level of economic regulation to be imposed on intra-provincial/state transportation. The local government is best capable of determining the needs and requirements of transportation companies and shippers on a local basis.

While the Canadian legislation will resolve the major issue of concern for U.S truckers, ATA is very concerned with attempts to use the trade talks and other trade legislation to further deregulate the U.S. domestic trucking industry, e.g. intrastate deregulation. The industry opposes further deregulation of the interstate motor carrier industry and proposals to preempt state regulation. State regulation is a matter for each State to decide.

The trucking industry does not wish to be put in a position of having to oppose a trade agreement with Canada, which we believe would be beneficial to all concerned, because of inclusion of motor carrier deregulation.

With the passage of the Canadian motor carrier deregulation legislation, it is our recommendation that discussion of trucking in the trade agreement include a statement of principle supporting equal licensing on transborder trucking. This statement of principle will enable the U.S. to reopen the talks or seek redress through established mechanisms if the Canadian deregulation legislation is not implemented fairly.

SUMMARY
OF
COMMENTS SUBMITTED BY THE
AMERICAN WATERWAYS OPERATORS (AWO)
ON THE U.S.-CANADA
FREE TRADE AREA NEGOTIATIONS

AWO is the national trade association of the U.S. inland and coastal barge and towing industry and small- to medium-sized shipyards. In the context of the U.S.-Canada trade negotiations, the Canadian government is seeking an exemption to U.S. cabotage laws to allow Canadian vessels to operate in the U.S. domestic waterborne trade. AWO vigorously opposes this proposal and opposes as strenuously a proposal outlined by Special Trade Representative Clayton Yeutter to allow Canada to participate in the U.S. domestic trade by virtue of future amendments to existing law.

Adoption of either proposal would alter drastically the composition of the U.S. merchant marine in general and the tug and barge industry in particular. Throughout our history, U.S. towing companies have adhered to the nation's cabotage laws which require, for domestic operations, use of U.S.-built, U.S.-owned, and U.S.-manned vessels. They have done so, most notably, by their investments in the future of this industry. The U.S. consumer has been well-served within the Jones Act by vigorous competition among and between these U.S. companies. At the same time, the nation has been assured of secure carriage of vital commodities, as well as serving national security needs.

Because all domestic operators must comply with these cabotage requirements, as well as U.S. laws which protect our workers and the environment, each domestic operator is competing on an even playing field. In contrast, Canadian-flag vessels built in Canada for its coastwise trade have been constructed with considerable government subsidy. Canadian vessels have also been built in heavily-subsidized foreign shipyards; there is no Canadian-built requirement. As a result, capital costs of Canadian vessel operators are much lower than for U.S. vessels. Should Canadian vessels be granted permission to operate in the U.S. domestic trades (which includes the inland waterway system), U.S. operators would be unable to bid competitively for freight. For an industry just experiencing the first blush of economic recovery, such competition would surely drive even the most substantial U.S. companies out of business.

The proposed "grandfathering" of existing maritime law, while allowing Canadians access to business opportunities arising from expanded maritime statutes, amounts to giving away the future of our industry. In the 1920s, when the Jones Act was first enacted, the intent of our cabotage laws was clear ... to preserve the nation's maritime assets in the event of national emergencies. Certainly Congress at that time could not have anticipated activities prevalent today, but which impinge on the Jones Act, such as OCS exploration or transportation of hazardous materials.

The Jones Act and related statutes are evolving laws. Over the years loopholes have been closed and the application of U.S. cabotage laws to "new" activities are clarified, i.e., transportation of valueless material, or seabed mining activities within the 200-mile Exclusive Economic Zone. If the Canadians are allowed access to these business opportunities legitimately falling within U.S. cabotage law, again, U.S. companies will be shut out of the competition, with disastrous consequences for U.S. security.

* * *

The American Waterways Operators, Inc.

Executive Offices

1600 Wilson Boulevard
Suite 1000
Arlington, VA 22209

Tel 703 841-9300

Joseph Farrell
President

August 14, 1987

Honorable Lloyd Bentsen, Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

The American Waterways Operators (AWO), the national trade association representing the U.S. inland and coastal tug and barge operators and small- to medium-sized shipyards, takes this opportunity to submit our comments on the U.S.-Canada free trade area negotiations. We understand in the context of these trade negotiations, that the Canadian government is seeking an exemption to U.S. cabotage laws to allow Canadian vessels to operate in the U.S. domestic waterborne trade. AWO vigorously opposes this proposal and opposes as strenuously the suggestion outlined in the enclosed letter from Special Trade Representative Clayton Yeutter to allow Canada to participate in the U.S. domestic trade by virtue of future amendments to existing law.

Adoption of either proposal would alter drastically the composition of the U.S. merchant marine in general and the tug and barge industry in particular. Throughout our history, executives of U.S. towing companies have adhered to the nation's cabotage laws which require, for domestic operations, use of U.S.-built, U.S.-owned, and U.S.-manned vessels. They have done so, most notably, by their investments in the future of this industry. And, it is critically important to note, the U.S. consumer has been well-served within the Jones Act by vigorous competition among and between these U.S. companies. At the same time, the nation has been assured of secure carriage of vital commodities, as well as serving national security needs. Today the U.S.-flag vessels plying our system of locks, dams, canals and coastal waters is all the more important for our defense readiness. We supply essential jet fuel to military air bases and otherwise supply the munitions and plastics industries so vital to our national defense. And, we provide the feedstocks for America's plastics industry and the chemicals which are used in munitions and rockets. These are simply a few examples of many. Because success often begets complacency, a special Presidential Commission is looking at even more defense applications for our industry.

Because all domestic operators must comply with these cabotage requirements, as well as U.S. laws which protect our workers and the environment, each domestic operator is competing on an even playing field. In contrast, Canadian-flag vessels built in Canada for its coastwise trade have been constructed with considerable government subsidy. Canadian vessels have also been built in heavily-subsidized foreign shipyards; there is no Canadian-built requirement. As a result, capital costs of Canadian vessel operators are much lower than for U.S. vessels. Should Canadian vessels be granted permission to operate in the U.S. domestic trades (which includes the inland waterway system), U.S. operators would be unable to bid competitively for freight. For an industry just experiencing the first blush of economic recovery, such competition would surely drive even the most substantial U.S. companies out of business.

The proposed "grandfathering" of existing maritime law, while allowing Canadians access to business opportunities arising from expanded maritime statutes, is no less than a snare and a delusion. That is giving away the future.

In the 1920s, when the Jones Act was first enacted, the intent of our cabotage laws was clear ... to preserve the nation's maritime assets in the event of national emergencies. Certainly Congress at that time could not have anticipated activities prevalent today, but which impinge on the Jones Act, such as OCS exploration or transportation of hazardous materials.

With the intent unchanged, the Jones Act and related statutes must be evolving laws. Over the years loopholes have been closed and the application of U.S. cabotage laws to "new" activities are clarified, i.e., transportation of valueless material, or seabed mining activities within the 200-mile Exclusive Economic Zone. If the Canadians are allowed access to these business opportunities legitimately falling within U.S. cabotage law, again, U.S. companies will be shut out of the competition, with disastrous consequences for U.S. security.

Mr. Chairman and members of the Finance Committee, AWO believes that the barge and towing industry contributes significantly to the U.S. economy, with inland and coastal barges and towboats moving over 311 billion ton-miles per year. We respectfully request that your committee urge our trade negotiators to refrain from including maritime give away programs within the FTA negotiations.

Sincerely,

Joe Farrell

Joseph Farrell

Enclosure

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

July 21, 1987

Mr. Joseph Farrell
The American Waterways Operators
Executive Offices
1600 Wilson Boulevard
Suite 1000
Arlington, Virginia 22209

Dear Mr. Farrell:

Thank you for your recent letter regarding the status of shipping in the free trade negotiations with Canada. The services negotiations are centered around a draft set of rules and disciplines that would pertain solely to laws that are enacted after the agreement is signed. Thus, if shipping were to be covered by such an understanding, the existing provisions of the Jones Act, in addition to any other existing legislation applicable to the shipping industry, would not be bound by its provisions. They would be grandfathered.

The issue for consideration in the Free Trade Agreement negotiations is whether future laws pertaining to maritime would conform to the principle of trade to the extent of their application to Canada.

There has been some question as to whether the Jones Act has been "on the table" for consideration in the Free Trade Area negotiations with Canada. In March, the Canadian negotiators asked that Canadian flag vessels be exempted from our cabotage provisions as part of the services understanding. Our negotiators made it very clear that this was a matter we are unable to consider, and we provided the Canadians with a frank assessment of the political environment associated with this issue in the United States so that they could fully understand our position. The Canadians, nonetheless, persisted in their request. I can assure you, however, that we have shown no flexibility in granting this cabotage exemption to their vessels and there simply are no circumstances under which we would consider such an exemption.

I appreciate your interest and concern in this matter. Let me assure you that any recommendation we make regarding the inclusion of shipping in the FTA will be after close consultation with the maritime industry.

Sincerely,

Clayton Yeutter

Clayton Yeutter

AMOCO

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Telex 25-4709
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TWX 910-221-2513

E. J. Roland
President

August 14, 1987

The Honorable Lloyd Bentsen, Chairman
Senate Committee on Finance
U.S. Senate
Washington, D.C. 20510

Dear Senator Bentsen:

The United States, through the U.S. Trade Representative, is currently engaged in negotiating a Free Trade Area Agreement with the Canadians. It is my understanding that the Canadian side has advanced several proposals which could threaten the U.S. maritime industry. Likewise, the U.S. is purported to be considering a proposal to "grandfather" existing U.S. maritime programs and provide Canadian maritime interests the benefits of equal participation in any future U.S. maritime policies. Granting Canada access to our domestic trades would make its merchant marine a beneficiary of our long standing U.S. promotional programs. Such programs were enacted to develop and maintain an American merchant marine for national security purposes.

I urge you and the members of your Committee on Finance to support the resolution recently advanced by Senator John Breaux that all proposals relating to our maritime promotional programs be taken off the negotiating table and not be included in the final Free Trade Area Agreement. It is imperative that the President and the U.S. Trade Representative understand that your Committee stands by the Jones Act and does not support any attempts to have the Act used as a bargaining chip in the U.S. - Canada trade talks.

Sincerely,

ARTHUR ANDERSEN & CO.

DUANE R. KULLBERG
MANAGING PARTNER-
CHIEF EXECUTIVE OFFICER

69 WEST WASHINGTON STREET
CHICAGO, ILLINOIS 60602
(312) 580-0069

August 10, 1987

The Honorable Lloyd M. Bentsen
Chairman
Committee on Finance
United States Senate
205 Senate Dirksen Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

This letter is in response to your request for comments on the U.S.-Canada free trade area negotiations.

Speaking both for myself and for Arthur Andersen & Co., a comprehensive and balanced free trade arrangement with Canada is highly desirable. We have been impressed by the work of you and your committee in preparing to deal with a finalized agreement. Also, we have been encouraged by the preliminary information coming out of the negotiations, although we realize that several difficult issues have yet to be addressed. We will comment more fully and specifically after we review the final text of any agreement that may be reached.

As a member of the Service Policy Advisory Committee to the United States Trade Representative, I have followed many trade negotiations closely and have had an opportunity to comment on both bilateral and multilateral negotiations on services. The Committee should know that Ambassador Clayton Yeutter has done an outstanding job of keeping the private sector informed and of representing our views before the various negotiating bodies. With respect to the Canadian negotiations, Ambassador Peter Murphy and Deputy Assistant Trade Representative for Services Richard Self have both performed admirably in consulting with the private sector.

Background

Arthur Andersen & Co., S.C. is a worldwide organization which provides professional services in accounting and audit, tax, management information consulting and professional education. We are one of the world's largest international professional services organizations, with member firms in 50 countries employing 36,000 people. Our fees totaled $1.9 billion in fiscal year 1986.

Arthur Andersen established its first Canadian office in 1960. Today we have six offices across Canada employing over 700 people. These offices serve not only Canadian clients but also the Canadian-located entities of clients from the United States and other countries. Likewise, many of our offices in the United States serve Canadian client entities located here.

Interest in Canadian Negotiations

On the whole, our firm and other international accounting organizations have benefited from the open commercial environment between Canada and the U.S. We encounter very few government regulatory constraints, and the few impediments we do face are relatively minor.

Nonetheless, we have a strong interest in the U.S.-Canada negotiations and the achievement of a comprehensive, balanced and enforceable free trade agreement. Such an agreement would contribute to economic growth in both countries and expand cross-border trade and investment, which would benefit our business and many others.

As far as the Services Sector is concerned, an agreement would serve to preserve the current open environment in the years to come. In addition, it would set a good precedent for upcoming multilateral negotiations on services, which we hope will address circumstances in countries that have more severe trade obstacles to overcome than those encountered in the United States/Canada context.

Comments on Negotiations to Date

I realize that I am not in a position to comment on all the elements of the negotiations and that there are many outstanding issues yet unresolved. Nevertheless, I believe that any successful agreement must be:

1) comprehensive -- covering trade and investment in goods and services and related issues such as intellectual property protection, movement of professional personnel and discriminatory regulation.

2) balanced -- working to the advantage of both countries, with give-and-take on both sides for the common gain.

3) enforceable -- assuring that obligations will be fulfilled, that issues coming to light will be addressed in future years, and that interests on both sides of the border have recourse to fair and impartial means of resolving disputes.

I can comment somewhat more specifically on services-related matters because we have had the opportunity to review informal understandings and bracketed texts to date. It is my impression that all the elements of an excellent services agreement are on the table, although not yet pinned down. A key issue is whether the agreement will go beyond national treatment to include the right of market access, the right of commercial presence and/or the right of establishment. Progress is also being made toward assuring that professional standards and licensing requirements are applied on a nondiscriminatory basis.

There are two issues of particular interest to us. The first is the elimination of import duties and customs valuation problems on published materials that are used for internal purposes and that have no external commercial value. We understand that there is a very good chance that this problem will be eliminated at the time the agreement goes into effect. The second item is the minimization of restrictions and paperwork relating to professional personnel from one country on temporary assignment in the other. We have learned, from consultstions with the U.S. Trade Representative's Office and the Department of Labor, that the two governments are close to an agreement addressing these problems.

A final issue of interest -- the reduction of excessive tax burdens on individuals on temporary assignment in the other country -- is not being addressed at this time. We remain hopeful that some improvements can be made on this in the future, outside the context of the free trade negotiations.

* * * * *

I hope my comments prove helpful. Once again, both my firm and I are supportive of the negotiations. Naturally, our final judgment will depend on our analysis of the actual text.

In this regard, we would be pleased to supply more information to the committee this fall as it enters more specific consideration of negotiated texts. I would appreciate being kept informed of your progress.

Sincerely,

Duane R. Kullberg

Duane R. Kullberg

KLC

Association of American Publishers, Inc.

2005 Massachusetts Avenue, N.W.
Washington, D.C. 20036
Telephone 202 232-3335

Nicholas A. Veliotes
President

August 10, 1987

The Honorable Lloyd Bentsen
Chairman
Committee on Finance
United States Senate
205 Dirksen Building
Washington, D.C. 20510

Dear Mr. Chairman:

We are responding to the Finance Committee's request for comments on the U.S.- Canada free trade negotiations.

The Association of American Publishers is in favor of a comprehensive free trade agreement with Canada. Such an arrangement, covering commodities, services, investment and intellectual property protection, would offer economic benefits to both countries and give added impetus to the free and unrestricted exchange of ideas - a primary objective of this Association. To promote and support efforts to broaden the trade relationship with Canada, our Association, which represents the American book publishing industry, has joined with a diverse group of U.S. businesses and trade associations to form the American Coalition for Trade Expansion with Canada (ACTE/CAN).

Our endorsement of a free trade arrangement with Canada is, however, qualified by our insistence that any such agreement must include an end to Canada's punitive foreign investment policy as it applies to American book publishing companies.

That policy, promulgated in July 1985 by former Canadian Communications Minister Marcel Masse, forecloses all new American investment in Canadian book publishing.

Even worse, it forces American publishers to divest themselves of "indirectly acquired" Canadian subsidiaries within two years of the acquisition. Thus, for example, if a U.S. firm acquires an American publishing company which happens to own a Canadian subsidiary, that subsidiary must be sold to Canadian interests at the end of two years. This forced divestiture, at "fire sale" prices, places American publishers at a substantial disadvantage and causes serious economic dislocation and investment flow distortions.

Ostensibly put forward to protect Canadian "cultural sovereignty," the forced divestiture policy is really not a cultural issue at all. As a Canadian writer stated in a recent issue of Maclean's magazine: "The warning cries about selling our culture to the Americans reflect only the interests of a small but vociferous lobby of Canadian businessmen and intellectuals who want to protect themselves from American competition." That such a policy has no place in a reciprocally balanced free trade agreement is further evidenced by the substantial and unrestricted acquisition of U.S. book, newspaper, and magazine publishing companies in recent years by Canadian interests.

With the understanding that a U.S.- Canadian free trade package must deal equitably with the question of foreign investment in Canadian book publishing operations, we view the historic negotiations now underway as an unparalleled opportunity for economic cooperation with a staunch ally and friend.

Sincerely,

Nicholas A. Veliotes
Nicholas A. Veliotes

ACE

CENTER FOR ENTREPRENEURSHIP
WICHITA STATE UNIVERSITY
WICHITA, KANSAS 67208
(316) 689-3000

ASSOCIATION OF COLLEGIATE ENTREPRENEURS

August 12, 1987

Honorable Members of the Senate Finance Committee
c/o Laura Wilcox, Hearing Administrator
Committee on Finance
Unites States Senate
Room SD-205
Washington, DC 20510

Dear Senators:

International trade is important to our 6000 members who represent the nation's top young entrepreneurs age 30 and under. And the firms that they have founded represent over $2.5 billion in gross revenues. More specifically, research is showing that our members as well as youth in general support free-trade (see the attached **Success** magazine story) even when the foreign competition might threaten their own business.

As an association, we have enjoyed a great relationship with our young entrepreneurs to the north. Besides helping to establish an ACE-Canada, we have participated actively in each others' conventions and we have seen several beneficial business ties established between young entrepreneurs from both countries.

In support of free-trade with Canada, I've joined with several other entrepreneurship and small business association leaders in supporting the efforts of the American Coalition for Trade Expansion with Canada (ACTE/CAN). Their background materials and relative defense of free-trade represent my thoughts.

Please know that I'm only speaking for myself (our members have not taken any kind of official vote), however, my thoughts and feelings do reflect the research which has been done and personal conversations I've had with our members.

The essence of my stance relates to the long-term effects of trade policy established today. Our members, as the young business leaders of our nation, will be the ones which have to suffer the consequences or reap the benefits of these talks as they impact the long-term. And history demonstrates the negative long-term impact of inhibiting trade -- even when established only in retaliation for perceived or real trade barriers of others.

Sometimes, one just wants to stand-up and yell "leave us alone." It is inconceivable how we have even come to the point where a handful of individual negotiators are deciding whether one of our Canadian young entrepreneurs can or cannot cut a deal with one of our U.S. young entrepreneurs. Though the issues are much more complicated, this is essentially what is being negotiated. And this is sad!

There is no doubt that anything done to more completely open-up trade between the U.S. and Canada will have a positive long-term impact on the young entrepreneurs and youth in general of both nations.

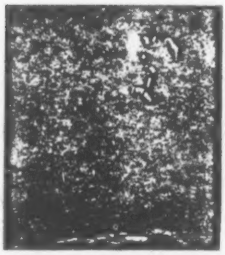
With regards,

Verne C. Harnish
National Director

New-Age Capitalists

Risk Takers In an Era of Uncertainty

By Amy Saltzman



Julie Brice (above) of I Can't Believe It's Yogurt! says entrepreneurship is the heart of business; Andy and Coni Karsh (left) of San Diego Design stress individualism on the job.

They've been called selfish, unprincipled, and greedy. They've been accused of being narrowly apolitical, aware only of their own self-interest and oblivious to any concept of the common good. In their quest for self-expression, they job-hop incessantly, disrupting corporate stability. Their disregard for long-term commitments has caused the breakdown of company cohesion as older executives shy away from sharing information with employees who may resign at a moment's notice.

There seems no limit to their egocentricity: Even the most junior of their ranks thinks nothing of firing off a note to a CEO he barely knows, criticizing accepted policies or brashly proposing unorthodox courses of action. Frustrate him in the least, and he's off to launch his own business, displaying a self-confidence worthy of latter-day robber barons.

That has been the standard picture of today's young entrepreneurs and executives. Yet even within this stereotype there are ostensible contradictions: On the one hand, there is the image of the intensely individualistic, ruthlessly competitive professional possessed of a passionate desire to prove his own uniqueness. On the other hand, a decidedly un-yuppie-like picture emerges, of a business executive pursuing creative self-expression, eager to explore new ways of managing, and attuned to egalitarian philosophies of teamwork and cooperation.

In fact, there is no dichotomy. The opposite traits turn out to be facets of a new breed of businessman who stands in stark contrast to an earlier generation's prototype, the Organization Man, and his prevailing values of loyalty, security, and conformity. This "new competitor," as he is often called, has been shaped by the major economic events of our time:

A steady shrinkage of jobs in Fortune 500 companies, amounting to a loss of more than 5 million jobs since about 1970. It's a trend that has been dramatically exacerbated in the last few years with massive layoffs and "downsizings" by major companies. Awareness of this trend has engendered a survivalist streak in the new competitor, an "I'll watch out for myself first" determination.

A booming, expanding entrepreneurial economy that has created some 40 million jobs in the same period that the big companies lost 5 million. The effect has been to encourage creative risk taking and to in-

PHOTOGRAPHS BY GWENDOLEN CATES

Innovation, and shared responsibility, are more important than loyalty.

fuse new competitors with a hearty faith in free-market capitalism.

A small but visible high-tech boom. Though it resulted in relatively few jobs, the high-tech explosion has shaped the mystique of the entrepreneur. Innovative, fast-moving organizations staffed with brilliant "knowledge workers" have set the pace for other entrepreneurial organizations.

All these forces have combined to create a new psychology of individualism and the emergence of a unique professional creature in our economic and political lexicon.

The social liberalism of the '60s – tolerant of dissent, open to radical solutions, and rejecting government controls over morality – has been wedded to the conservative economic platform of the Republican Party. The mind-set of this new individual cannot be characterized as either right or left. An unusual but telling example of how recent shifts are defying old stereotypes comes from the sexual battlefront. For at least a generation, liberal Democrats joked about the prudery of conservative Republicans. So when a seemingly straitlaced and dedicated campaign worker for Senator Orrin Hatch of Utah suddenly went public as a liberated porn queen, it was hard to fit her into any category. The tip-off was that she was not only proud of her prurient charms, but was also celebrating the profit-making potential of her body and urging her sisters everywhere to cash in on their sexual assets as well. She was a perfect, if extreme, example of the libertarian political philosophy: unfettered capitalism combined with a purely personal definition of morality in which everything is O.K. as long as it doesn't hurt anyone else.

There are dozens of examples of this new mind-set from more mainstream executives and entrepreneurs. In a poll of SUCCESS readers, 77 percent of the 174 respondents turned in perfect or near-perfect "libertarian" scores (see box, page 52). Harvard Business School professor D. Quinn Mills, whose new book, *Not Like Our Fathers*, will be published in September, estimates that 80 percent of baby boomers share these values, although only 5 percent would actually call themselves libertarians.

TO FIND OUT FOR OURselves, we interviewed dozens of entrepreneurs and managers throughout the country, including participants in a recent conference of the Association of Collegiate Entrepreneurs in Chicago. What we discovered was a group of young businesspeople (aged 21 to 35) who were ready and willing to reflect on the philosophical beliefs behind their own careers. While they were up-front about their economic goals, they also spoke in often ideological terms about the principles that drive their ambition. They were highly opinionated and surprisingly politically aware. Without exception they claimed to support less government intervention in all areas – not only because their own businesses would benefit, but because they believe that a free market is, quite simply, in the public's best interest.

In fact, this age group consistently demonstrates more interest in adhering to a set of principles and values than their loyal corporate counterparts of decades past. A recent survey on attitudes of businesspeople, cited by Robert Lichter of the American Enterprise Institute in Washington, D.C., found that although older executives (those over 40) tend to fear government interference in business, their opposition usually ends when it coincides with their own self-interest in such areas as subsidies and protectionism. Younger executives (those under 40), on the other hand, say they consistently support free trade and enterprise – even when it hurts their businesses. Most striking, 57 percent of the SUCCESS survey respondents said they would be against protectionist measures, even if foreign competition forced their companies into bankruptcy. The average age of the respondents was 35, and 21 percent were business owners.

Managerially, these beliefs translate into an emphasis on creativity, efficiency, and productivity. Loyalty is important, but not as important as innovation, trust, and shared responsibility.

"A large corporation is a little socialist economy, with a dictatorial structure and monopolies," says Shane Chalke, 29, who five years ago started his own actuarial firm in McLean, Va. Chalke read Ayn Rand's ***The Fountainhead*** when he was 14, has never registered to vote, and says he "would like no government at all . . . everything private." Politically, Chalke considers himself a libertarian. "A pure entrepreneur buys and sells all of his services," says Chalke. "But government overhead – taxes, regulations – encourages businesses to be larger than they should be."

Chalke's philosophical beliefs have translated into an unusual management style. Employees at his company, which has annual revenues in excess of $1 million, are not paid on a salary basis. Instead, when a client comes in with a problem, Chalke simply asks his staff who wants to handle the case for the price being offered. "This encourages everyone to do everything in the most efficient way possible."

This emphasis on efficiency and innovation is a consistent theme among young executives. In the SUCCESS survey, 80 percent of the respondents answered "no" to the following statement: "In choosing my ideal organization, a place with strong leadership appeals more to me than one where creativity and participation are emphasized." The percentage of those answering "no" was about equally divided between business owners and nonowners.

The leadership question is a particularly important issue for today's young entrepreneurs, who must balance an often ruthless interest in business efficiency with an altruistic concern for the individual. Perfecting this balancing act

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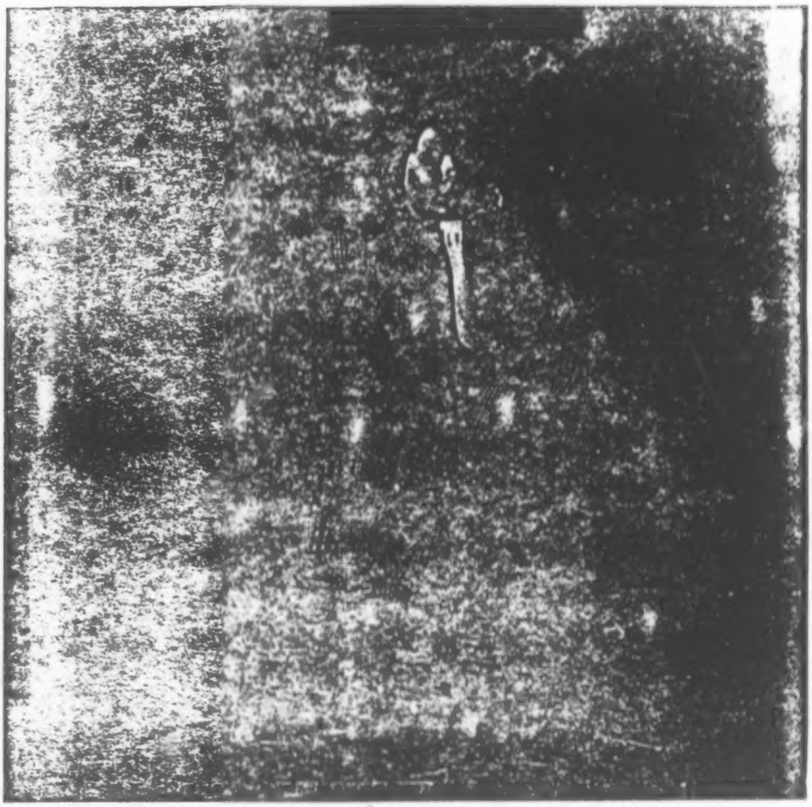
Amy Saltzman is a senior editor at SUCCESS. ***Additional reporting by Karen Lehrman and Mark B. Roman.***



New-age mentor: Joanne Marlowe, 31, runs her own fashion-design firm; she just helped her assistant found a business.

seems to be a primary concern of these business owners. Andy Karsh, 29, and his wife, Coni, 30, the owners of San Diego Design Inc., a $20 million manufacturer and wholesaler of premium-quality wood entertainment centers, believe all employees should have a stake in their company. They have had a profit-sharing program since the company first began with just three employees. Today, with 263 workers, this husband-and-wife team, both of whom are self-avowed libertarians, use words like "informal," "democratic," and "highly entrepreneurial" to describe their management philosophy. "Change is always for the better," says Coni. "Let people use their talents. If you don't, they'll never succeed."

That doesn't mean that life at San Diego Design is all bliss and harmony. The Karshes, for instance, fired a production manager a few years ago for turning out poor work. "He put productivity over quality," says Andy. "If he thought he could get by with a 'B' product, he wouldn't try to turn out an 'A' product."

Leadership, for these young entrepreneurs and managers, becomes most crucial when their employees lack the motivation to lead themselves. Joshua J. Beren, the 26-year-old owner of Concepts in Computer Technology (CCT), in Lakewood, N.J., fired several employees because, in his words, "their drive had diminished." Beren, an ordained rabbi, father of four, licensed pilot, and accomplished weight lifter, is part of a growing breed of "professional" start-up entrepreneurs. He started his first business when he was 17 – J.B. Auto Electronics Systems, manufacturer of

The "New Managers" credo: Move forward, push yourself, never stop growing.

car alarms. CCT, a $7 million marketer of computer and data-communications products, is Beren's fourth company.

"In a young business, people need to be self-motivated," says Beren, a registered Republican with libertarian leanings. "When people become too settled into their specific job definitions, that's when problems start. Employees need to be able to assume responsibility outside of their area of expertise."

Moving forward – that is what powers the beliefs, actions, and managerial styles of these young executives. The need to keep growing, to keep pushing ahead, takes precedence over everything else. Loyalty, under this mind set, is never as important as personal growth. These young businesspeople love to tell stories about how they helped a secretary or mailroom clerk pull himself up and out of the entrepreneur's own company.

Take Joanne Marlowe: At age 21, she talks like a seasoned mentor guiding the lives of employees who often are younger than she is. Of course, when Marlowe was 12 she was pulling in $300 a month selling stuffed-animal patterns through the mail. Today Marlowe, who runs her own $2 million fashion-design firm in Evanston, Ill., is something of a parental figure herself to many of her employees. "I took one part-time worker who had almost no self-confidence and taught her to take pride in herself. She started out as my assistant right out of college. But she didn't dress right, didn't carry herself well. Now she is confident. She's a salesperson in my showroom, and she even asked me for help setting up a business. She wants to run a clothing-distribution company. I'm letting her work part-time so she can get the company going."

The ability to deal one-on-one with employees in an empathetic and understanding manner is a major concern of young managers. Across the board it is young women entrepreneurs and executives who are better able to articulate their views on this subject. In fact, women seem to have a real edge over men in this area: Their introspective nature has translated into a more wholistic approach to running their businesses and managing employees.

Sara Dickinson Westendorf, a 36-year-old R&D engineering manager for Hewlett-Packard, was a social worker before she decided to get an engineering degree. Westendorf is blunt about her reasons for leaving social work: "I quickly realized there were problems I couldn't solve. It was a dead-end, frustrating job that didn't pay. Though challenging, engineering problems can be solved. And the pay is quite a bit better."

But Westendorf, a registered Democrat who considers herself economically conservative and socially liberal, believes her social-work background helped her develop "above average" people skills when it comes to managing her staff of 118. "Hewlett-Packard looks to make sure each individual is heard," she says.

Even at the biggest companies, young managers are demanding a strong voice. For this reason Professor Mills believes successful corporations of the future will have to organize their businesses into small, independent units or teams so that entrepreneurial managers are able to have an impact.

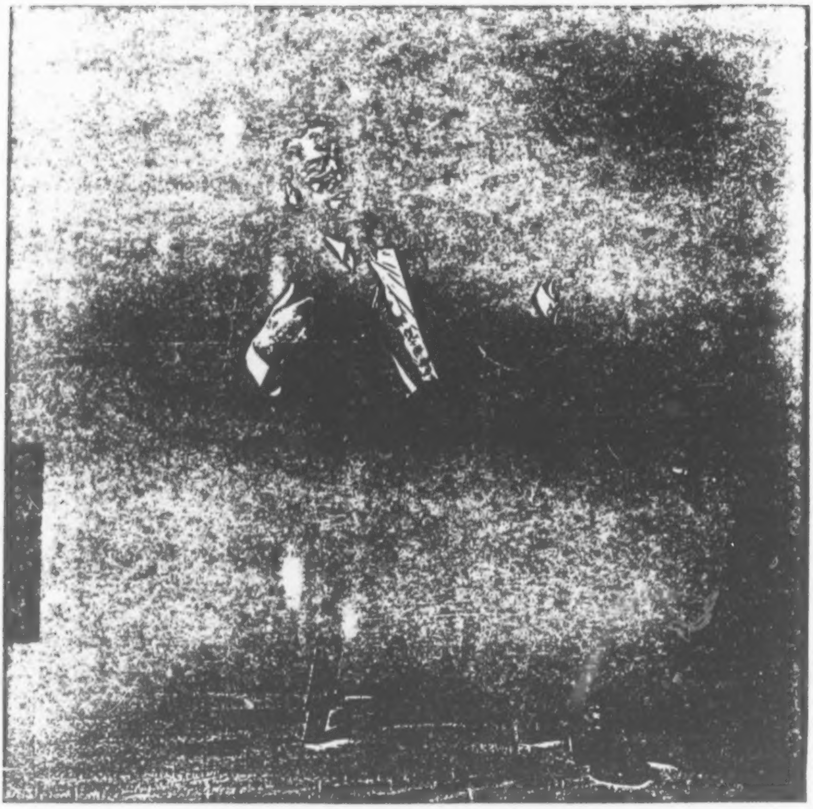
As their start-ups grow, the most confident young entrepreneurs will refuse

NEW EXECUTIVE ATTITUDES

SUCCESS readers as a group display the characteristics of "the new manager-entrepreneur." They are notable for their strong belief in free-market economics, their personal philosophies of self-determination, and their emphasis on management skills, according to a questionnaire mailed to the homes of 500 subscribers.

A sizable 88 percent believed "we should continue transferring to the private sector many functions now performed by the Government." While this would no doubt be in the self-interest of opportunity-seeking entrepreneurs, other questions indicate a pattern of belief about the efficacy of the free market. For example, 83 percent believed that "privatizing Government services would contribute to economic efficiency." However, only 75 percent would be willing to take the more radical step of ending the U.S. Postal Service's monopoly on first-class mail. Readers also demonstrated a tendency to be forward-looking: While 65 percent said they opposed bailout policies for threatened large companies, 75 percent saw at least some merit in a national competitiveness policy by which economic resources would be directed to high-growth industries.

Readers were most consistent in regard to management practices. Fully 100 percent of the 174 respondents believe that the "key resource" of a business is its employees and only 5 percent feel that the emphasis on "people skills" for managers "is misguided and mainly a fad that will pass." Owners and nonowners of businesses gave similar responses to all questions. Both favored organizations emphasizing "creativity and participation" over those with strong leadership, for example. Most striking was the agreement of the two groups on their opposition to protectionist measures – by nearly 60 percent – "even if foreign competition would force my company into bankruptcy." Readers defied easy stereotyping. But, on the grounds that libertarianism is often associated with personal idealism, 77 percent of the respondents received perfect or near-perfect libertarian scores.



No loafers: Joshua J. Beren, a 26-year-old ordained rabbi, fires people who aren't working up to their full potential.

to give in to bureaucracy. "We avoid bureaucracy by keeping things simple," says Julie Brice, 28, co-founder, with her brother, Bill, 29, of I Can't Believe It's Yogurt!, a Dallas-based chain of frozen-yogurt stores. Julie says the $19 million company is currently in the process of departmentalizing, making the transition from purely entrepreneurial-style management. "We realize we can't do everything. But it is important not to create too many layers so people will continue to have a voice in the company."

More than anything else, it is this utter sense of self-confidence that sets younger entrepreneurs and managers apart from their older counterparts. They believe quite simply, and perhaps naively, that they can achieve whatever they set out to accomplish. Unlike business managers of the past who were guided by a conservative, status quo ethos, they feel change is almost always for the best; that the way to make a difference is to keep moving forward. A whopping 94 percent of respondents to the SUCCESS survey, for example, said they viewed the vast changes transforming American industry more as opportunities than as problems.

"If someone can get a better job, great. Let them use their potential," says Marlowe. "If a person can raise himself to a higher level, that's terrific. I respect people who take risks, like quitting. Today, everything is disposable and dispensable – the newspaper, razor blades, even jobs. And that's *not* bad. I have no respect for people who settle, who just want to feel secure. They'll end up in a lousy job for 10 years because they're afraid to change." ■

Ball Corporation
345 South High Street, Muncie, Indiana 47305-2326 (317) 747-6100
Reply to: P.O. Box 2407, Muncie, Indiana 47307-0407

John J Pruis
Vice President
Corporate Relations
(317) 747 6470

August 6, 1987

The Honorable Lloyd M. Bentsen
Chairman
Committee on Finance
United States Senate
205 Senate Dirksen Office Bldg.
Washington, D.C. 20510

Dear Mr. Chairman:

Through the American Coalition for Trade Expansion with Canada (ACTE/CAN), we have learned of the request of your Committee for comments on the U.S.-Canada free trade area negotiations. On behalf of Ball Corporation, I am pleased to submit brief comments.

While our company engages in very little trade with Canada, we strongly support the removal of both tariff and non-tariff barriers to trade between our two countries. The strength of many U.S. companies has suffered, especially in recent years, in part because of trade restrictions and, at times, trade conflicts. With only our natural and friendly border separating us, and with our mutual political and cultural values, there is great opportunity to increase our international competitiveness--so sorely needed--through the removal of remaining trade barriers. A strengthened American economy would surely be a result, through the creation of jobs, reduced prices for consumers and improved economic efficiency.

I urge you and the Committee to strive diligently for a U.S.-Canada free trade agreement that will benefit both countries.

Sincerely,

John J Pruis

JJP/sj

50 Years of BAMA
1937 - Fifty Years of Sweet Success - 1987

August 13, 1987

Laura Wilcox
Hearing Administrator
Committee on Finance
United States Senate
Room SD-205
Washington, D.C. 20510

Subject: United States and Canada Free Trade Negotiations

Bama Pie, Ltd. currently manufactures high quality baked goods for both the food service and retail markets.

The international operations of Bama Pie center around the manufacturing, distribution, and licensing of the fried pie product available in every McDonald's restaurant world-wide. Bama has enjoyed its current license relationship with a bakery in Scarborough, Ontario.

In order to expand the export business, Bama has launched a program to market a line of retail products in Canada, primarily emphasizing the three inch pecan pie. it is anticipated that another co-venture business opportunity will develop based on preliminary market acceptance reports.

Bama Pie, Ltd. strongly believes that both the industrialized nations of Canada and the United States can benefit from encouraging and facilitating a free market.

Thank you for your attention to this matter.

Yours truly,

Bonita Snyder

Bonita Snyder
Director of Product Development and
International Sales & Technical Services

BS/kw

cc: Douglas H. M. Branion

BAMA PIE, LTD. • P.O. Box 4829 • Tulsa, Oklahoma 74159 • (918) 592-0778

B. F. Trappey's Sons, Inc.
Quality Food Products

Telex #586690
Cable: TRAPPEYS
FAX # (318) 369-7342
(318) 365-8281

Post Office Drawer 400
New Iberia, La. 70561-0400
U. S. A.

August 11, 1987

Ms. Gail Harrison
American Coalition For Trade Expansion With Canada
1317 F Street, N. W., Suite 600
Washington, DC 20004

Dear Ms. Harrison:

Canada is not just America's largest trading partner. Together, the U.S. and Canada have the largest two way trading relationship in the world. Canada purchases far more American manufactured goods than any other country, and our exports to Canada have been growing at a much faster rate than those to the rest of the world.

B. F. Trappey's Sons, Inc. recently signed a contract with a Canadian distributor firm that will permit an enlarged market potential and exposure. Our products, until now, have had limited distribution in this great country at our Northern borders.

It is anticipated that once our products are known to the Canadian people, our growth potential would be enhanced. More sales would avail a greater opportunity for increased employment.

B. F. Trappey's endorses and supports the free trade negotiations between the two countries.

Sincerely,

R. J. Blenderman
President & CEO

RJB:jmb

SINCE 1898
TRAPPEY'S
Shield Label

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Spice-Up® • Chef-Magic® • Mexi-Bean® • Redi-Yam® • Red Dragon® • Louisiana T.M.

Buffalo Forge Company
P. O. BOX 985
Buffalo, N. Y. 14240

Executive Office

August 10, 1987

U. S. Senate Finance Committee
United States Senate
205 Dirksen Building
Washington, D. C. 20510

Subject: Canada Free Trade Area Negotiations

Gentlemen:

Any success in eliminating or minimizing tariff barriers between Canada and the United States will, in our opinion, do nothing but strengthen the North American economy. Being responsible for plants on both sides of the border, we find that tariff barriers in general are primarily a nuisance and a hinderance to the most efficient operation of the company.

To successfully compete with other major trading blocks, such as the European common market, and the various Asian countries, we are going to have to have the largest market possible for the efficient production of goods and services. The amalgamation of Canada and the United States into a single manufacturing and trade zone will provide one more step in helping the two economies compete effectively in the world trading markets.

I suspect that the tariff barriers themselves are not really the most difficult issue in the negotiations between the United States and Canada. I honestly believe that these could be settled very easily. However, the non-tarrif barriers present a much more ingrained and difficult area of negotiations. To that end, I suggest any successful negotiations between the United States and Canada would point the way to even closer future cooperation, not only in a bilateral basis, but as a show towards better multilateral cooperation in an area of trade and tarrifs.

In trying to take a balanced view, I have more difficulty seeing the long term benefits to Canada than to the United States. It seems to me that while there may be some short term advantages in easier access to the United States markets, in the long term it, in my opinion, will lead to pretty well total assimilation of the Canadian country and economy by the larger over-powering United States economy. However, maybe this is best left to future politicians and negotiations, since it appears that Canada more or less initiated the discussions.

Yours sincerely,

BUFFALO FORGE COMPANY

J. R. Adare

J. R. Adare
President

COMMENTS OF

CHAPARRAL STEEL COMPANY, NORTHWESTERN STEEL AND WIRE CO., AND NUCOR CORPORATION* ON THE U.S. - CANADA FREE TRADE NEGOTIATIONS IN SUPPORT OF IMMEDIATE ELIMINATION OF DUTIES ON STRUCTURAL STEEL

EXECUTIVE SUMMARY

Chaparral Steel Company, Northwestern Steel and Wire Company, and Nucor Corporation, mini-mill producers of structural steels, support a U.S.-Canada Free Trade Agreement which provides for immediate tariff elimination for structural steel products traded between the U.S. and Canada.

U.S. and Canadian negotiators are currently considering a staged reduction of tariffs on certain import sensitive products, including steel. A gradual phase-out of tariffs is an exception to the general principle of broad trade liberalization in bilateral free trade agreements. Such an exception should be made only to avoid market disruption and with the full support of the affected industry.

In this case, the majority of domestic producers support an immediate elimination of tariffs on structural steel. The U.S. duty on structurals classified in TSUS items 609.8010 through 609.8090 is only 0.9 percent, which is substantially lower than the Canadian duty on the same products of 6.8 percent. Given the 5.9 percent disparity in duty rates, a gradual tariff reduction would delay substantially the benefits that duty free entry of structurals into the Canadian market would provide the domestic industry, while providing minimal (if any) protection to U.S. producers from Canadian structurals.

RE: REQUEST FOR PUBLIC COMMENT ON THE U.S.-
CANADA FREE TRADE NEGOTIATIONS (RELEASE NO. G-4)

The ongoing free trade negotiations between the United States and Canada have as a principal objective the elimination of tariffs on goods traded between the countries. However, for certain products, including steel, a phase-in of the duty elimination lasting up to ten years is under consideration. Chaparral Steel Company, Northwestern Steel and Wire Co., and Nucor Corp., producers of structural steels, anticipate a commercial advantage from the immediate, mutual elimination of tariffs and oppose any staged reduction of the duties on structural steels.

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* These comments were prepared by Charles Owen Verrill, Jr., of Wiley, Rein & Fielding, 1776 K Street, N.W., Suite 1000, Washington, D.C. 20006 for Chaparral Steel Company. Northwestern Steel and Wire Company and Nucor Corporation have also authorized Wiley, Rein & Fielding to submit these comments on their behalf.

Specifically, a Free Trade Agreement with Canada should include an immediate elimination of tariffs on "angles, shapes and sections, of iron or steel, hot rolled, forged, extruded or drawn ...." classified in TSUS items 609.8010 through 609.8090. The U.S. duty on these structurals is only 0.9 percent, which is in marked contrast to the Canadian duty on the same products of 6.8 percent. Given the minimal U.S. duty, a phase-out would not benefit domestic producers and would delay unjustifiably the advantages that duty free entry of structurals into the Canadian market would provide the domestic industry.

With the exception of "heavy" structurals, the angles, shapes and sections classified in TSUS Item 609.80 are largely produced by the market or "mini" mills. Chaparral Steel Company, Northwestern Steel and Wire Company, and Nucor Corp. represent a major portion of mini mill production. Until recently, integrated producers, including Bethlehem Steel Corp., have been the principal manufacturers of heavy structurals but the market mills have -- or soon will -- a full range of structural products.

Export opportunities for U.S. structural producers would be greatly enhanced by the immediate elimination of the Canadian duty on these products pursuant to the proposed Free Trade Agreement. The Canadian tariff rate on structural products is 6.8 percent, as compared to a U.S. rate of only 0.9 percent. (See Appendix A.) This 5.9 percent differential is larger than any other difference between U.S. and Canadian duty rates on major steel products. Moreover, the U.S. tariff of 0.9 percent is the lowest duty on any steel product. At an illustrative selling price of $300 (U.S.) per ton, the tariffs are, therefore, $20.40 on shipments into Canada, but only $2.70 on sales from Canada into the United States. This disparity by itself is sufficient justification for the immediate elimination of tariffs on these products.

The very purpose of a bilateral free trade agreement is to achieve broad trade liberalization for the mutual benefit of the participating countries. Ideally, tariffs on goods traded between the countries would be completely eliminated upon entry into force of the agreement. Exceptions should be made only if it is clear that disruption would occur in a particular market and the affected industry requests some measure of protection during an adjustment period. Such exceptions should be limited as nearly as possible to those products with respect to which trade liberalization would have a direct and substantial adverse effect on one country's producers.

It has been suggested that an exception from the commitment to complete tariff elimination be made in the case of steel products traded between the United States and Canada. However, in the case of structural steel products, there is no justification for such an exception. Trade liberalization would not have any adverse affects on the structural industry, which is increasingly dominated by efficient and competitive market mills. In fact, these producers will benefit from the elimination of the Canadian duty because market opportunities in Canada will be enhanced.

Moreover, there is no basis from which to argue that the immediate elimination of the 0.9 percent U.S. duty on structurals, consistent with the overall negotiating objective, would have an adverse effect on domestic producers. As a practical matter, elimination of this 0.9 percent duty is very unlikely to result in a material increase in Canadian exports to the United States. In fact, Canadian fabricators, which purchase over thirty percent of their steel from U.S. sources, have argued that elimination of duties would increase their purchases of heavy structurals from U.S.

producers.[1] Furthermore, the elimination of a 0.9 percent duty would not materially affect the price of Canadian structurals in the U.S. market. In these circumstances, the nominal effects of the U.S. tariff on Canadian imports preclude a finding of adverse impact from trade liberalization especially when measured against the predictable benefits.

In summary, a U.S.-Canada Free Trade Agreement should provide for immediate duty free trade in structural steels. A phase-in of duty free status would harm the domestic producers because of reduced export opportunities while providing a negligible (if any) impact on Canadian sales of structurals to the United States. There is, therefore, no justification for a delay in duty free structurals trade if an agreement with Canada is reached.

Respectfully submitted,

Charles O. Verrill, Jr.
Katherine M. Gorove
Lynn S. West

of

WILEY, REIN & FIELDING
1776 K Street, N.W.
Suite 1000
Washington, D.C. 20006

August 17, 1987

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[1] See Statement Concerning Possible Negotiation of a U.S.-Canada Free Trade Area, submitted by the Canadian Institute of Steel Construction to the Office of U.S. Trade Representative, September 15, 1986.

APPENDIX A
U.S.-Canadian Tariff Rate Differentials on Major Steel Products

Product	TSUS #	Can. #	Avg. U.S. Rate	Avg. Can. Rate	Differential (Higher)
1. Ingots	606.69	37700-1 37705-1	5.1	Free	U.S. - 5.1%
2. Billets, blooms, slabs, and sheet bars	606.69	37800-1	5.1	4%	U.S. - 4%
3. Concrete reinforcing bars					
- Carbon	606.79	37900-2	4.9%	6.8%	C - 1.9%
- Alloy	608.81	37900-1	5.7%	10.	C - 4.3%
4. Other hot-rolled bars					
- Carbon	606.83 606.86	37900-2	3.9	6.8	C - 2.9%
- Alloy	606.9005 606.9100 606.9300 606.9500 606.9700	37900-1	6.6%	10	C - 3.4%
5. Cold-rolled or cold-drawn bars					
- Carbon	606.88	37905-2	7.5	8	C - .5%
- Alloy	606.9015 606.9020 606.9100 606.9900	37905-1	8.6	12.5	C - 3.9%
6. Wire Rod					
- Carbon	607.14 607.17 607.22 607.23	37900-2	2.9	6.8	C - 3.9%
- Alloy	607.2600 607.5900	37900-1	4.3	10%	C - 5.7%

Product	TSUS #	Can. #	Avg. U.S. Rate	Avg. Can. Rate	Differential (Higher)
7. Sheets & Plates					
- Carbon	607.66 607.67 607.83 608.01 608.07 608.11	38201-2 38110-2 38100-2 38105-2 38202-2 38205-2	5.6%	7.8%	C - 2.2%
- Alloy	607.69 607.81 607.88 607.93 608.14	38100-1 38105-1 38110-1 38201-1 38202-1 38205-1	7.1	10.6	C - 3.5%
8. Strip					
- Carbon	608.19 608.23	38201-2 38205-2 38202-2	4%	7.4	C - 3.4%
- Alloy	608.26 608.67	38201-1 38202-1 38205-1	8.3	11.3	C - 3.0%
9. Flat or Other wire					
- Carbon	609.20 609.28 609.70	40102-2	4.6	6.8	C - 2.2%
- Alloy	609.28 609.37 609.75 609.76	40102-1	5.1	7.8	C - 2.6%
10. Round Wire					
- Carbon	609.40 609.43	40101-2	3.4	5.5	C - 2.1%
- Alloy	609.45	40101-1	9.	6.5	U.S. - 3.5
11. Wire Cloth, fensing, mesh, netting & screening	642.45 642.82	40112-1	5.5	8	C - 2.5
12. Angles, shapes & sections	609.8010 609.8090	38001-2	.9	6.8	C - 5.9%
13. Pipes & Tubes	610.30 610.52	39700 39705	4.95	7.7	C - 2.75%

STATEMENT OF

THE CHOCOLATE MANUFACTURERS ASSOCIATION OF THE U.S.A.
AND
THE NATIONAL CONFECTIONERS ASSOCIATION OF THE U.S.

TO THE UNITED STATES' SENATE COMMITTEE ON FINANCE

REGARDING

UNITED STATES CANADA FREE TRADE NEGOTIATIONS

SUMMARY

Last year bilateral trade in confectionery between the United States and Canada exceeded $100 million and spanned semi-manufactured products through finished sugar and chocolate confectionery packaged for retail sale. While 1986 registered substantial growth, it was almost entirely from Canadian exports to the United States. The United States' bilateral trade position for confectionery plunged deeply into deficit.

Canada's complete dominance of confectionery trade and the decline in U.S. exports is a function of Canada's high protective tariffs that block entry of U.S. confectionery; and Canadian manufacturers' access to world price sugar which gives their exports a substantial price advantage in the United States market. The favorable 25% exchange rate differential between the U.S. and Canadian dollars is a further price incentive for U.S. industrial and retail consumers to purchase Canadian semi-manufactured and finished confectionery goods.

The most immediate benefit of the proposed free trade arrangement for the U.S. confectionery industry will be the elimination of Canadian tariffs. However, fundamental changes in U.S. agricultural policies must also be considered.

THE OUTSTANDING BENEFIT OF THE PROPOSED FREE TRADE ARRANGEMENT FOR THE U.S. CONFECTIONERY INDUSTRY WILL BE THE ELIMINATION OF CANADIAN TARIFFS

Last year bilateral trade in confectionery between the United States and Canada exceeded $100 million and spanned semi-manufactured products through finished sugar and chocolate confectionery packaged for retail sale. While 1986 registered substantial increases, it was almost entirely from Canadian exports to the United States. The United States' bilateral trade position for confectionery plunged deeply into deficit.

In 1986, U.S. exports to Canada of semimanufactured and finished confectionery products declined 16% in volume and 23% in value while Canada's exports to the U.S. increased 53% in volume and 45% in value. For every one pound exported to

Canada, almost four pounds were imported from Canada. An aggregate of semi-manufactured categories shows a Canadian dominance of 7 pounds for every one pound of U.S. export.

Part of the reason is evident in the attached statistical report and tariff rate analysis. The average duty in the U.S. for the semi-manufactured categories is 1.3% compared to 9.8% in Canada. Imports of packaged retail confectionery from Canada pay 5% or 7% duty while U.S. exports to Canada will confront a 13% duty for chocolate and 16% on sugar confectionery.

We strongly urge the Committee to require that any free trade arrangement with Canada include the immediate elimination of confectionery tariffs. While the entire answer is not found in duty rate differentials, the elimination of Canada's high confectionery tariffs would contribute substantially to improving the competitiveness of U.S. confectionery exported to that market. Confectionery trade is rapidly becoming a north to south one way street. Under the circumstance, there is no excuse Canada can offer, be it market size or manufacturer economies of scale, that can justify perpetuating tariff barriers to United States confectionery.

Free access to the $7 billion U.S. confectionery market has enabled Canada to become a major supplier of all categories of confectionery from semi-manufactured to finished retail products. The 53% surge in the volume of Canadian confectionery exports last year was due in large part to a staggering increase of almost 350% in the semimanufactured category of chocolate in ten pound blocs (TSUS 156.2500). Imports grew from 9.6 million pounds in 1985 to 42.6 million pounds in 1986 - 33 million pounds in just 12 months. The trade deficit in this single category, 42 million pounds imported - zero exported, exemplifies the growing damage to domestic industry competitiveness from the sugar price support program.

Central to Canada's competitive advantage is the availability of world price sugar in that country and the fact that sugar makes up between 45% and 98% of confectionery products. In fact, raw materials including sugar, milk, cocoa, peanuts and flavorings, are 60% to 85% of confectionery manufacturing costs. Confectionery manufacture is not labor intensive. Long term success in the highly competitive U.S. and world market depends on access to lowest cost raw materials. Unfinished chocolate and cocoa products in particular, which are unbranded and sold in bulk to other manufacturers, must compete on price alone.

Following is a comparison of U.S. and Canadian sugar prices that illustrates the handicap to U.S. manufacturers.

1986 Sugar Prices (U.S. $)

	Canada	U.S.
Refined sugar - retail	0.268	0.365
Raw	0.05 (world)	0.23 (producer)

The differences in the U.S. and Canadian sugar policies must be addressed in the free trade negotiations. It is apparent however that the burden of change must be on U.S. agricultural policy which not only handicaps domestic manufacturers but may obstruct trade policy objectives such as the free trade arrangement which will benefit the economies of both nations.

CONFECTIONERY TRADE BETWEEN THE U.S. AND CANADA
1986

TSUS No. HS TSUS NO.	Description	IMPORTS FROM CANADA Pounds	IMPORTS FROM CANADA U.S. $	U.S. Duty	Canada Duty	EXPORTS TO CANADA Pounds	EXPORTS TO CANADA U.S. $
156.200 1806.20	Chocolate, Unsweetened	1,752,227	$ 2,453,478	free	10.0%	227,999	$ 212,105
156.25 1806.2020	Chocolate, Sweetened Bars, blocks> 10lb.	42,681,674	34,351,058	free	10.0	0	0
156.3045 1806.2040	Chocolate, Sweetened, No butterfat	10,922,085	10,455,963	5.0%	12.8	140,072	188,921
156.35 1804.00	Cocoa butter	39,867	93,978	free	free	1,308,118	2,503,902
156.40 1805.00	Cocoa, Unsweetened	175,377	30,429	$.37/lb	10.0	2,847,651	2,442,660
156.45 1806.10	Cocoa, Sweetened	2,694,925	776,713	free	12.8	281,041	174,128
156.47 1806.2060	Confectioners' Coatings	8,590,252	3,890,088	2.5%	12.8	3,516,574	1,317,382
	Subtotal Semi-manufactured	66,856,407	$51,951,707			8,167,499	6,777,005
156.30 1806.2040	Chocolate Bar Candy	2,997,411	4,210,747	5.0%	12.8	2,039,129	2,759,499
157.1020 1704.10	Sugar Confectionery	19,476,749	15,362,029	7.0%	16.1	6,675,508	7,000,314
157.1040 1806.20	Chocolate Confectionery	9,858,399	16,097,897	7.0%	12.8	11,858,091	15,887,183
	Subtotal Finished - Retail	32,332,559	35,770,673			20,572,728	$25,646,996
TOTAL ALL CATEGORIES		99,188,966	$87,722,380			28,740,227	$32,424,001
Percent Change over 1985		+53%	+45%			-16%	-23%

C/S/E

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August 10, 1987

UNITED STATES-CANADA TRADE: TIME TO END THE FACE-OFF

by Mary Alexander and Pamela Heard

SUMMARY

Ongoing free trade negotiations between the United States and Canada offer substantial opportunities for both nations' citizens. Conservative estimates suggest that a free trade agreement (FTA) could raise U.S. gross national product by $12-17 billion--as much as $280 for the average family of four--and create up to 750,000 jobs in the United States. Consumers on both sides of the border would gain as U.S. and Canadian firms are freed to compete for their business.

The two countries already share the world's largest bilateral trading relationship, with trade totaling $126 billion in 1986. Two million American jobs depend directly on U.S. exports to Canada, and more than 2.2 million Canadian jobs depend directly on exports to the United States. More American jobs depend on trade with Canada than on trade with any other country.

Canada has some of the highest tariffs in the industrialized world. Mere reduction of Canadian tariffs to the average level of other industrialized nations could raise U.S. exports by up to $500 million, according to the Office of the United States Trade Representative. American industries which would gain the most from elimination of Canadian tariffs are textiles, apparel, and footwear, which currently face tariffs of over 15 percent. Because no international agreements yet prevent protectionism for service industries, an FTA would also benefit U.S. financial services, aviation, shipping and telecommunications firms. Mutual agreement on definitions and reduction of agricultural and natural resource subsidies would help prevent special interests on both sides of the border from holding the economic fate of these industries hostage.

In an era when protectionism is on the rise, an FTA could potentially spur worldwide trade liberalization. Such an agreement would demonstrate the benefits of truly open trade, convince other nations that the United States is seriously interested in comprehensive, multilateral reductions in trade barriers, and provide a model for dealing with difficult issues like services and investment. Americans should not let special interests--or politicians' indifference--torpedo a free trade agreement with Canada.

INTRODUCTION

Ongoing free trade negotiations between the United States and Canada offer substantial opportunities for both nations' citizens. Similarities in culture and economics, common language, a large volume of trade, and generally good trade relations also give the two countries the best opportunity for success. An agreement could not come at a more crucial time.

Trade disputes between the two countries are growing, and protectionist sentiment is on the rise in Congress. If the current talks fail, chances for the success of a new round of multilateral trade liberalization talks are slim.

A free trade agreement (FTA) between the United States and Canada would likely spur worldwide trade liberalization in at least three ways. First, a free trade agreement would demonstrate the benefits of truly open trade. The United States could offer similar agreements to encourage other countries to remove their own barriers to American exports--or offer them to countries whose exports compete with countries which refuse to remove trade barriers. This approach is embodied in trade legislation introduced in the 100th Congress by Senator Phil Gramm (R-TX) and Representative Jack Kemp (R-NY). Second, such an agreement could serve as a signal to other nations that the United States is truly interested in comprehensive, multilateral reductions in trade barriers. Finally, the U.S.-Canada agreement would be precedent-setting. Investment and trade in services have not yet been addressed in global trade negotiations. A U.S.-Canadian agreement eliminating barriers to trade in these areas could serve as a example of how to deal with these issues in the new multilateral trade round.

THE WORLD'S LARGEST TRADING PARTNERSHIP

Canada and the United States share the world's largest bilateral trading relationship, totaling $126 billion in 1986. U.S. trade with Canada is slightly smaller than U.S. trade with the ten-member European Community (EC). Total U.S. exports to Canada grew by 20 percent between 1983 and 1986, while U.S. exports to the entire world grew by eight percent. Canadian exporters likewise depend heavily on the U.S. market, for more than three-fourths of Canadian exports are sold to the United States.

Canada ranks higher than Japan and only slightly below the EC in purchasing U.S. exports. In fact, the United States exports more to the province of Ontario alone than to Japan, the nation with the second largest trading relationship with the United States. In 1986 U.S. merchandise exports to Canada were $45.3 billion, slightly under one-fourth of all U.S. exports. This proportion has remained fairly constant for the past 20 years.

Manufactured and semi-manufactured goods account for about 85 percent of U.S. exports to Canada, compared to 25 percent of U.S. exports to Japan and 64 percent of U.S. exports to the European Community. More than 40 percent of U.S. exports to Canada are automobiles and parts. Other major exports include office machinery, automated data processing equipment, telecommunications equipment, electronic components, aircraft, professional and scientific instruments, and coal.

Because the Big Three American automakers have subsidiaries in Canada, motor vehicles and parts account for 36 percent of American imports from Canada. Other major imports include aircraft, telecommunications equipment, electronic components, crude oil, natural gas, wood, pulp and waste paper.

It has been estimated that more than 2.2 million Canadian jobs depend directly on exports from that country to the United States, while two million American jobs depend directly on U.S. exports to Canada. More American jobs depend on trade with Canada than on trade with any other country. The major states that export to Canada are Michigan, New York, and Ohio, exporting more than $13.6 billion in 1983.

Canadians spend more per person on U.S. exports than residents of either Japan or the EC. If each Canadian purchased as much merchandise from the United States as the average American buys from Canada, the U.S. merchandise deficit with Canada would be over $60 billion instead of under $25 billion.

FREE TRADE WILL EXPAND GROWTH AND CREATE JOBS

Conservative estimates suggest that a U.S.-Canada FTA would raise U.S. gross national product by about three or four-tenths of one percent. With U.S. GNP at $4.2 trillion in 1986, those percentages amount to an increase of $12-$17 billion, an increase of up to $280 for the average family of four. Exports of $45.3 billion to Canada in 1986 supported about two million American jobs. At the ratio of $22.65 billion per million jobs, an increase in GNP of $12-17 billion could create 500,000-750,000 more American jobs.

Canadian economists estimate an FTA would raise that country's gross national product by nine percent. Both labor productivity and real wages, meanwhile, could climb by over 28 percent. The manufacturing sector would receive a large share of the benefits.

Gains from expanded trade would, of course, be mutual. An FTA would give American firms a relatively larger reduction in tariffs and greater export opportunities, especially for products used in the energy, mining, communications and other high-technology sectors. Canadian firms would see reduced nontariff barriers and gain access to a much larger market.

An FTA would also enhance the international competitiveness of both American and Canadian industries. Elimination of tariff and nontariff barriers on manufactured goods would encourage companies to respond to genuine economic considerations instead of trade laws when deciding where to locate new plants. Freer movement of natural resources and capital would help cut costs and direct investment to the most productive businesses.

Given the already-strong mutual dependence, the choice of Canada to be the first large nation with which to negotiate a free trade agreement was a sensible one. Currently Israel is the only nation with which the United States enjoys such an agreement. The free trade agreement with Israel took effect in September 1985. Total trade with Israel in 1986 was $4.4 billion, up seven percent from 1985. Free trade with Canada would lower prices and expand options for American consumers, as well as open up new markets for American industries.

REMOVE CANADIAN TRADE BARRIERS TO SPUR U.S. GROWTH

Tariffs

Canadian tariffs are, in general, a relatively greater burden on American exporters than are U.S. tariffs on Canadian exporters. While 85 percent of Canadian merchandise exports enter the United States duty-free, 70 percent of U.S. merchandise exports enter Canada duty-free. The average Canadian tariff on U.S. exports is 9-10 percent, and the average U.S. tariff on Canadian exports is 4-5 percent.

However, Canadian and U.S. tariffs still remain high on selective products including clothing, shoes, furniture, petrochemicals, home appliances, cosmetics, paper products and recreational boats. Canadian tariffs are still among the highest in the industrialized world. The Office of the United States Trade Representative estimates that if Canada's tariff rates were cut to the level of other industrialized nations, U.S. exporters could gain $500 million annually.

Some of these differences in tariff rates may be due to the fact that Canada relies more heavily on tariffs than on nontariff barriers to protect some industries from competition. Canada's tariff schedules therefore indicate the degree of protection more accurately than those of some other countries, and they suggest that a free trade agreement offers substantial opportunities for a variety of U.S. industries. Particularly prominent are the textile, apparel, and footwear industries, which currently face Canadian tariffs of over 15 percent. Furniture, fresh pork, groundfish and other processed agricultural and fisheries products also continue to face high tariffs.

The 1965 Automotive Products Trade Agreement, usually known as the Auto Pact, is one successful agreement between the two countries that shows how elimination of tariffs can expand trade for mutual benefit. The pact originally was negotiated to eliminate Canadian subsidies to exports of automotive parts to the United States. The agreement bilaterally removed tariffs on all new automobiles and all original-equipment parts, although auto trade is still controlled. U.S. automakers, for instance, must produce cars in Canada in proportion to their sales there.

The agreement's success accounted for approximately two-thirds of the growth in U.S.-Canada trade between 1980 and 1985. Over 70 percent of the growth in U.S. exports to Canada during this period occurred in motor vehicles and parts. Sixty percent of the increase in Canadian exports to the U.S. was attributable to motor vehicles.

The U.S. auto parts industry objects to the recent reinstitution of a Canadian program designed to encourage producers from third countries, such as Japan, Korea, and the European Community, to invest in Canada. The plan lets foreign companies import duty-free into Canada amounts of goods equivalent to what they produce in Canada for export. U.S. auto parts makers allege that the Auto Pact provides an additional incentive for foreign investment in Canada by giving these companies duty-free access to the U.S. market as well. In fact, however, U.S. imports from Canada must have at least 50 percent of their value added there to qualify for duty-free treatment. They cannot be merely transshipments from third countries. Hopefully, this controversy can be resolved in the negotiations.

The two countries generally agree they want to eliminate all tariffs on bilateral trade after ten years. In addition to autos and auto parts, contentious products may include textiles, clothing, furniture, household appliances, fruits and vegetables. Nevertheless, tariff reductions should be the easiest objective to attain.

Nontariff Barriers

Subsidies, industrial policies and seemingly arbitrary decisions of various Canadian government departments are very vexing to American firms trying to expand business in Canada. It is often hard to ascertain whether many government practices can be classified strictly as protectionist trade barriers or as merely side effects of other public policies.

Through the FTA, the United States wants to reduce Canadian federal and provincial subsidies for regional development and agriculture. Subsidies and supply restrictions can be just as effective as tariffs at discouraging imports. For instance, the production of dairy products, poultry and eggs, comprising 21 percent of Canada's agricultural output, is wholly protected through provincial marketing boards. Before wheat and other grains are imported into Canada, the Canadian Wheat Board must grant import permits. Quarantine requirements on live hogs make exports from the U.S. prohibitively costly. Canada subsidizes its fishing industry. Federal and provincial grants and other types of financial assistance are provided for oil, gas and minerals exploration; agriculture; publishing; and retail and wholesale commerce. For instance, a freight rate subsidy program is available for certain Canadian grains and other feed ingredients.

Canada imposes quotas on footwear imports, maintains complex customs procedures, and insists on using its own distinct specifications for forest and agricultural products. In an effort to protect a distinctly Canadian culture and encourage the growth of an indigenous film industry, the Canadian government has proposed restricting distribution of imported films for which U.S. studios do not own international rights. Such a restriction would result in a loss of up to $150 million of U.S. filmmakers' $1 billion in annual sales, according to the Motion Picture Export Association.

On the provincial level, liquor regulators can favor Canadian products by refusing to permit sales of imported beverages or mandating unusually high markups, costing U.S. exporters $25-100 million in sales annually, according to the Office of the United States Trade Representative. Canada discriminates against U.S. telecommunications through "Buy Canada" laws and high tariffs. Both provincial and national governments pursue "buy national" or even "buy provincial" policies, reducing U.S. exports by $100-500 million each year.

Fortunately, many of these and other nontariff barriers are fair game in the free trade negotiations. They demonstrate vividly the importance of ensuring that any such agreement closes off all "loopholes" which might allow protection under a different name.

Investment

The most important U.S. objective in the free trade talks is to liberalize restrictions on U.S. investment in Canada. U.S.-Canada bilateral investment is both substantial and reciprocal. In 1985, U.S. direct investment in Canada exceeded $47 billion. Canadian direct investment in the U.S. was approximately $17 billion.

Canada restricts new, large (over $3.7 million), and "culturally sensitive" direct foreign investments through the Investment Canada Act. In addition, the publishing sector and large "indirect foreign acquisitions"--changes in ownership due to mergers and acquisitions of multinational corporations' subsidiaries located in Canada--also come under governmental review. Foreign investments can be limited by subjecting foreign firms to more burdensome taxes and regulations than domestic firms, denying them "national treatment."

Until recently, American firms could not expand into Canada unless they agreed to meet certain performance standards, such as export goals, domestic content requirements, specified levels of employment, and specified levels of domestic research and development expenditures. Performance requirements are now officially "voluntary," but in practice they still serve as preconditions to entry.

"Culturally sensitive" business activities in the areas of publications, film, video, music and recordings are subject to review. Special requirements must be met for investments in energy, air transportation, communications, and financial services. For example, 50 percent Canadian ownership is required for oil and gas projects on federal lands.

The United States would like Canada to drop restrictions not faced by Canadian investors and to guarantee that performance requirements will not be reimposed under a later administration. Dropping these restrictions will be a major accomplishment for the two countries and may induce other countries to drop their barriers in order to compete with Canada for American investment.

Services

No international protocol exists for trade in services, so efforts to agree on rules expanding trade in financial services, trucking, aviation, shipping, telecommunications and professional services will break new ground. Canada strongly protects its airlines from competition, and various provinces limit the extent of trucking company operations. Canada's unique treatment of its broadcast and print media is uncommon in the world.

The "cultural" industry issue (radio, television, films, and publishing) poses difficult problems. In addition to the usual special-interest pressures for protectionism, Canada must deal with nationalistic fears that closer economic ties will lead to political and cultural unity with the United States and a loss of Canadian national identity. One provincial leader has suggested that the proposed talks could eventually lead to a customs union and then common political institutions which would threaten Canadian sovereignty.

Environmentalists, unionists, and the "cultural industries" also see the bilateral trade agreement as a possible threat to their interests. Their fears are based on the assumption that liberalization of trade in cultural items, such as magazines, television, movies, and books, would so flood the Canadian market with U.S. products that a distinctly Canadian popular culture would be virtually overwhelmed by U.S. influences. Already 72 percent of English television programming in Canada, including cable, comes from the United States. Nearly all English-language movies shown in Canada come from the United States, and distribution houses are controlled by American companies. Seventy-seven percent of all newsstand periodicals sold in Canada are imported, mostly from its southern neighbor, and 70 percent of the music on Canadian radio is of U.S. origin.

Because of the two countries' differing attitudes toward "cultural industries," some of the barriers affecting them may be particularly difficult to remove or modify unless Canadian domestic policy is changed. The United States regards broadcasting and publishing as a form of commerce, whereas Canadian government policy treats them as part of a Canadian national identity. As a result, Canadians are denied tax deductions for money spent on advertising in U.S. magazines, newspapers, and radio/television stations. Such restrictions killed a Canadian edition of _Time_ and cost the American print and broadcast media industries between $120 million and $190 million annually.

This long-standing advertising dispute is a recent example of how the unpredictability of government regulations hinders cross-border trade in services. A "reciprocity" agreement may be the easiest way to settle the services problem. U.S. firms operating in Canada would be subject to only those taxes, regulations and other conditions imposed on Canadian firms, and _vice versa_. Such an agreement would not require a merging of the two nations' tax codes or regulatory structures. Extension of each country's airline landing rights in the other country, for example, would be accompanied by reciprocal removal of regulations intended to hobble foreign airlines.

The United States is not satisfied with Canadian laws protecting intellectual property, such as patents, trademarks, copyrights and industrial processes. Canada does not protect Canadian or American broadcast signals from transmission without compensation. Nor are property rights of foreign pharmaceutical firms well-protected. Such firms exporting to Canada must grant Canadian firms licenses to produce the same drugs in exchange for receiving only a four percent royalty.

Any agreement liberalizing trade in services and protecting intellectual property will be useful in a larger context as part of the new trade talks on these issues in the Uruguay Round of multilateral trade negotiations. The most important goal is to reduce regulations in both countries. The most important principle for both nations to follow is that of giving foreign firms "national treatment," eliminating government regulations imposed on foreign firms but not on domestic firms.

REMOVE U.S. TRADE BARRIERS TO SPUR CANADIAN GROWTH

United States Trade Laws

Canada wants the security of predictable and assured access to the U.S. market. Canadian exporters do not want their economic fate held hostage to political pressures in the United States.

Vigorous enforcement of U.S. trade laws intended to protect American businesses from subsidized imports and other so-called "unfair trade practices" is a major issue between the two countries. Many Canadians view the actions as harassment designed to restrict unsubsidized Canadian exports. They therefore see the subsidies question as the most important Canadian trade concern. Canada feels the implementation of U.S. trade laws is unpredictable and arbitrary. Such action benefits American companies, but only by penalizing Canadian competition and American consumers.

A successful free trade agreement would have to protect consumers on both sides of the border from the continual trade battles generated by special interests in both countries.

American consumers were hit especially hard last year by what Canada claimed was an overly zealous interpretation of a U.S. trade law to protect American timber companies from Canadian competition. In early 1986, the United States imposed a punitive 35 percent tariff on Canadian cedar shakes and shingles. Ironically, the decision was announced the day after the first FTA negotiating session ended. New home buyers on average pay an extra $800 as a result of this tariff, according to the National Association of Home Builders, and American workers suffered when Canada retaliated against a variety of American products, including computer parts and books.

In May 1986, U.S. softwood lumber producers claimed that timber pricing practices of Canadian provinces constituted subsidization of Canadian lumber exports. They sought countervailing duties. Since the U.S. Commerce Department had determined in 1983 that Canadian provincial timber pricing did not entitle U.S. lumber producers to countervailing duties under U.S. trade laws, Canada's minister for international trade termed the new request for an import duty "harassment." Nevertheless, under threat of an American countervailing duty, in December 1986 Canada imposed a 15 percent export tax on Canadian softwood lumber. Such a tax was predicted to raise the average price of new American homes by $400, price 120,000 families out of the new housing market in the next seven years, and cost those who could still afford new homes an extra $227 million annually. American consumers could eventually pay over $1 billion more annually for lumber, according to Congressional Budget Office estimates.

Canada has now begun its own forceful interpretation of its trade laws, as demonstrated by the Canadian Tariff Commission ruling against American farm programs that subsidize U.S. corn growers. Shortly after the U.S. decision on softwood lumber, the Canadian government imposed a 67 percent countervailing duty on American corn imports, claiming that U.S. agricultural programs force Canadian producers to sell their corn below cost to remain competitive.

Even where subsidies exist, a countervailing duty "war" in which both governments raise import prices to compensate for subsidies sacrifices the interests of consumers to those of specific industries. Far better would be an agreement establishing a process by which the two nations can identify and eliminate trade-distorting practices, thereby also reducing special interest groups' opportunities to use trade laws for their own advantage. Such a process, which would let private parties air their disputes on government policies, could help protect consumers' interests if it induced both governments to remove trade barriers rather than raise them in retaliation. North American consumers as well as producers would also breathe a little easier if the two nations established a formal mechanism for consultation over trade grievances before their governments start investigating each other for trade law violations.

Tariff and Nontariff Barriers

There are a variety of miscellaneous tariff and nontariff barriers which limit Canadian sales to the American market. Canada seeks to eliminate U.S. quotas on sugar and sugar products. The quotas are part of a vast maze of farm subsidy programs on both sides of the border which need to be curtailed before they provoke more trade frictions and bankrupt taxpayers and consumers as well. General import taxes, of course, such as customs user fees and the oil import tax, discourage Canadian exports by raising their price in the United States.

Canada would also like federal and state governments in the United States to waive Buy America provisions in government procurement legislation. The free trade agreement with Israel sets a precedent by waiving all Buy America restrictions on purchases of $50,000 or more. Canadian firms would particularly like the opportunity to sell subway cars to the states, but the federal highway bill passed over President Reagan's veto bars such purchases from non-American suppliers.

CONCLUSION

In an era when protectionism is on the upswing, a free trade agreement with Canada offers the United States an opportunity to demonstrate how reduction of trade barriers enhances economic growth and expands consumer choices. Free trade could raise U.S. gross national product by $12-17 billion and create up to 750,000 American jobs by eliminating Canadian tariffs, curtailing nontariff barriers, liberalizing restrictions on investment, and quelling disputes over subsidies and application of U.S. trade laws. A wide variety of industries would benefit, including textiles, apparel, heavy manufacturing, financial services, aviation, shipping, telecommunications, agriculture, and natural resources.

In addition, a successful FTA would powerfully demonstrate to other nations the benefits of free trade. The offer of FTAs could give the United States new leverage in bargaining to reduce other countries' trade barriers without sacrificing the interests of American consumers through initiation of protectionist trade wars. A U.S.-Canada pact would enhance American credibility in multilateral trade liberalization talks and could point the way toward resolution of sensitive issues such as trade in services and investment. Politicians should not let special interest groups, unrelated trade issues, or just plain indifference kill the free trade agreement.

STATEMENT OF

NEIL O. CHRISTENSON

VICE PRESIDENT, FARM EQUIPMENT & CONSUMER PRODUCTS MARKETING,

UNITED STATES & CANADA

DEERE & COMPANY

ON

U.S.-CANADA FREE TRADE NEGOTIATIONS

SUMMARY

Deere & Company, from its perspective as an exporter and as a U.S. company with substantial manufacturing and marketing operations in Canada, strongly encourages the United States government to work with Canada toward establishing a new and improved framework within which to conduct trade between our two countries.

As part of a U.S.-Canada trade agreement, we recommend the abolition of tariffs on mobile power machinery manufactured in the U.S. or Canada and traded across our common border. Mobile power machinery includes a full range of farm equipment, lawn and grounds care products and a range of industrial, forestry and light hauling equipment.

We believe a trade agreement with Canada would produce significant benefits to our company in the following ways:

- o We could expect increased opportunity for exports which would result in greater profitability to the company with corollary benefits not only to our employees--most of whom work at facilities in Iowa, Illinois and Wisconsin--but also to the local communities in which we have a presence and to our suppliers nationwide. In addition, federal, state and local governmental units may benefit from higher revenues.
- o We would be released from the effects of uneven tariffs. As shown in the accompanying statement, significant differences exist in the tariffs levied by our two countries on some of the construction, forestry and lawn and garden equipment we export.
- o We would experience considerable relief from the administrative burden associated with complying with customs regulations, as well as freedom from border delays and inconsistent customs rulings.

We are hopeful that a plan fair to interests in both countries and acceptable to both governments can be reached.

Deere & Company, with headquarters in Moline, Illinois is a multinational corporation engaged in the manufacture, distribution and financing of a full range of farm equipment, lawn and garden products and a broad range of industrial, forestry and light hauling equipment. The company employs approximately 39,000 individuals worldwide and had sales of $3.516 billion in 1986. Given our global perspective, Deere & Company's view with respect to trade with Canada is two-fold in nature.

First, we approach the subject of U.S.-Canada trade from the position of a major U.S. exporter, currently ranking 38th on Fortune magazine's listing of largest U.S. exporters. Our sales to Canada of domestically manufactured farm equipment, construction and forestry machines and lawn and garden tractors significantly support our export position.

Second, Deere & Company considers U.S.-Canada trade from a special point of view emerging from the fact that we have a Canadian subsidiary, John Deere Limited. We manufacture at a plant in Welland, Ontario, and also have facilities in Grimsby, Ontario and in Regina, Saskatchewan. Many Canadians earn their living as our employees, and John Deere dealers and customers are found across Canada. We have enjoyed our commercial relationships with Canada, and hope they will continue to expand and improve with increased freedom from tariff and other trade encumbrances.

Deere & Company strongly encourages the United States government to work with Canada toward establishing a new and improved framework within which to conduct trade between our two countries. Deere & Company recommends that a trade agreement include the abolition of tariffs on mobile power machinery manufactured in the U.S. or Canada and traded across our common border. Mobil power machinery includes a full range of farm equipment, lawn and grounds care products and a broad range of industrial, forestry and light hauling equipment.

A comprehensive trade agreement with Canada would produce significant benefits to our company. Under a new environment of free trade, increased opportunities for exports would exist, resulting in greater profitability. Our success would be reflected in stable or increased employment at our own units, spin-off benefits to local communities and suppliers nationwide, and potentially higher revenues to federal, state and local governmental units.

In our own experience, gathered from many years of trading with Canada and doing business there as a manufacturer and marketer, there has been a direct relationship between the degree of openness in trade policy and the relative ease of conducting business transactions. During recent years tensions have been building because of trade disputes over products such as lumber, fish and pork, leaving all businesses somewhat uncertain about the future of trading relationships with Canada. A bilateral trade pact would significantly ease these tensions, allow for business decisions on the basis of economic efficiencies and promote greater growth in both countries.

In addition, there are specific improvements our company would welcome under a U.S.-Canada trade agreement. Some regard tariffs. As shown in the table below, there are currently substantial differences in the tariffs levied by the two countries on certain goods we export. This imbalance severely restricts our ability to compete in the Canadian market with respect to these goods. We look forward to the elimination of these and all tariffs on mobile power machinery.

Equipment	Canadian Tariff	U.S. Tariff
Industrial Products		
Motor Graders	10.3%	2.5%
Four-wheel drive loaders	9.3	2.0
Forestry Products		
Logging Equipment	8.0	Free
Grounds Care Products		
Certain lawn tractors	10.2	4.0
Certain snow blowers	9.2	2.5

Other improvements relate to interpretation and implementation of certain tariff laws. For example, while agricultural equipment--tractors and combines--flows between the U.S. and Canada duty-free, certain parts and components for use with farm equipment are subject to varying rates of duty. Because of ambiguities in current law, there is inconsistency in its interpretation. Therefore, products can be allowed duty-free entry at one time, but not the next; duty-free at one port, but not another; duty-free for one company, but not another.

Another situation that would be relieved by a trade agreement has to do with the fact that for certain agricultural products imported from Canada, it is necessary to certify that their end use is actually in agriculture in order to qualify for duty-free status. This requires tracking a sale to its final destination, plus the burden and added costs of reporting, obtaining proofs, and investigating diversions. Furthermore, substantial penalties can be assessed for inadvertent errors in reporting.

We would expect a U.S.-Canada trade agreement to provide considerable relief from the administrative burdens associated with complying with customs regulations, as well as freedom from border delays and inconsistent customs rulings as described in the examples above.

In conclusion, we wish to emphasize the importance of our trading relationship with Canada. Deere & Company is hopeful that the U.S. and Canadian negotiators arrive at a proposal that is fair to interests in both countries and acceptable to both governments so that an agreement can be consummated. We appreciate this chance to comment and are pleased with your early consideration of what we believe to be an extraordinary opportunity to formulate a plan that will deliver benefits to both the United States and Canada far into the future.

Deere & Company
Moline, Illinois

17 August 1987

Distilled Spirits Council of the United States, Inc.

August 13, 1987

The Honorable Lloyd M. Bentsen
Chairman
Committee on Finance
United States Senate
205 Senate Dirksen Office Bldg.
Washington, DC 20510

Dear Mr. Chairman:

This letter on behalf of the Distilled Spirits Council of the U.S., Inc. (DISCUS) is in response to the request of your committee for comments on the U.S.-Canada free trade area negotiations.

Basically, DISCUS supports a free trade arrangement with Canada. However, this association is not blindly committed to any agreement with Canada which does not correct problems which have been encountered in the past with respect to the sale of our products in Canada.

The problems involved are:

1. Reluctance by the Provincial Liquor Boards to list U.S. distilled spirits brands. The extent of this problem varies from Province to Province.

2. Discriminatory mark-ups between imported and domestic distilled spirits are authorized in most of the Provinces. (See attached)

3. Canadian law requires that all spirits imported in the bulk must be blended with some portion of domestic spirits before bottling. This requires U.S. straight bourbon whisky shipped in bulk to Canada to be bottled as "Bourbon whisky" since U.S. regulations preclude the addition of anything to straight whisky except water to reduce proof. In other words, the addition of local spirits prevents the product from being bottled in Canada as STRAIGHT BOURBON WHISKY. Without the word "straight", bourbon whisky has much less sales appeal as it is thought of by the customer as a lesser quality Bourbon.

4. The U.S. recognizes "Canadian Whisky" as a distinctive product of Canada made under the laws of Canada for consumption in Canada. For fifteen years the U.S. has been trying to get Canada to recognize Bourbon whisky as a distinctive U.S. product in the manner that the U.S. recognizes Canadian whisky. This request has not been honored and should be included in the U.S.-Canada free trade negotiations.

These matters have been discussed in depth with the office of the U.S. Trade Representative.

Sincerely,

F. A. Meister
President

FAM:sas

Attachment

A. 3.a. Discriminatory mark-ups

Canada

In some Provinces a substantially higher mark-up is applied on imported spirits than on the equivalent domestically produced spirits. The mark-ups on the landed cost are as follows:

	Domestic	Imported	Differential
Alberta(1) ex	116%	117%	-1
brandy	102%	103%	-1
liqueurs	109%	109%	0
British Columbia(2)	115%	120%	-5
Manitoba(3) ex	133%	138%	-5
brandy	110%	115%	-5
New Brunswick(3)	127%	132%	-5
Newfoundland	see (4)		0
North West Territories	150%	150%	0
Nova Scotia ex	126% (12 oz bot) 120% (25 oz bot)	126% 120%	0
gin	? " ?	144% 137%	?
liqueurs	126% " 120%	144% 137%	-18 -17
rum	136% " 128%	? ?	?
Ontario			
Cognac	-	120%	-62
brandy	58%	?	
whisky	(A&E) 109% (B&D) 110% (C) 111%	122% 122% 122%	-13 -12 -11
liqueurs	115%	127%	-12
rum	115%	?	?
Quebec(5) ex	113%	123%	-10 +
Cognac VS	-	100% + 118%(5)	specific
Cognac VSOP	-	118%	
Prince Edward Is	100%	100%	0
Saskatchewan(6) ex	133%	138%	-5
whisky	(A) 130% (B) 131%	(Deluxe) 136% 138%	-6 -7
Yukon	125%	135%	-10

(1) Alberta

A minimum specific dollar per unit rate of mark-up applies if the 'display price' is lower when the percentage mark-up is applied. The specific mark-ups are:

Whisky -
C$9.95 per 1.14 litre bottle
C$6.20 per 710 ml bottle
C$3.50 per 375 ml bottle

Brandy -
C$5.95 per 710 ml bottle
C$3.35 per 375 ml bottle

Gin, rum, vodka -
C$9.85 per 1.14 litre bottle
C$6.50 per 750 ml bottle
C$3.45 per 375 ml bottle

(2) British Columbia

12 cents per litre is added to the duty-paid landed cost before calculation of the mark-up.

Scotch Whisky imported in bulk and bottled in Canada is subject to the Domestic mark-up.

For "high-priced products" the following formula applies:
100% of mark-up paid on first C$12 per bottle
75% of mark-up paid on next C$5 per bottle
50% of mark-up paid on next C$5 per bottle
25% of mark-up paid on remainder per bottle

A minimum specific dollar per unit rate of mark-up applies if the display price is lower when the percentage mark-up is applied. The specific mark-ups are:

C$10.85/

C$10.85 per litre for up to 499 ml sizes
C$10.25 per litre for 500-999 ml sizes
C$10.10 per litre for one litre sizes and over

(3) Manitoba and New Brunswick

Scotch Whisky imported in bulk and bottled in these Provinces is subject to the Domestic mark-up.

(4) Newfoundland

Specific mark-ups apply to different cost categories, both of which are the same for imported and domestic products, as follows respectively:

C$7.60 on 710 ml bottle costing up to C$5.75
C$8.10 on 710 ml bottle costing C$5.76 to C$7.55
C$9.10 on 710 ml bottle costing C$7.56 to C$9.55
C$11.10 on 710 ml bottle costing C$9.56 to C$13.55
C$13.60 on 710 ml bottle costing C$13.56 and up

(5) Quebec

The mark-up is applied in two parts:

(i) a fixed mark-up on a portion of the duty-paid price (DPP) which is exempt from the percentage mark-up

	Portion of duty-paid price exempt	
spirits	375 ml	- C$ 75
	700, 710, 750 ml	- C$ 65
	1 litre	- C$ 80
	1.14 litre	- C$100
	1.75 litre	- C$ 75
Cognac VS	375 ml	- C$ 75 and C$ 90
	700, 710, 750 ml	- C$ 65 and C$ 90
Cognac VSOP	375 ml	- C$ 75
	700, 710, 750 ml	- C$ 65
liqueurs	375 ml	- C$ 70
	700, 710, 750 ml	- C$ 55
	1.14 litre	- C$100

Mark-ups:	Domestic	Imported	Differential
375 ml, 1.75 L	C$ 92.25	C$ 99.75	C$ 7.50
700,710,750 ml	C$ 80.00	C$ 86.50	C$ 6.50
1 litre	C$100.00	C$106.50	C$ 6.50
1.14 litre	C$123.00	C$133.00	C$10.00

Cognac VS/

4.

	Domestic	Imported	Differential
Cognac VS -			
375 ml	-	C$ 96.00	
700,710,750 ml	-	C$ 83.25	
Cognac VSOP -			
375 ml	-	C$ 96.00	
700,710,750 ml	-	C$ 83.25	
liqueurs -			
375 ml	C$ 86.00	C$ 93.00	C$ 7.00
700,710,750 ml	C$ 67.50	C$ 73.00	C$ 5.50
1.14 litre	C$123.00	C$133.00	C$10.00

(ii) the percentage mark-up is applied to the balance of the duty paid price except

Cognac VS -

375 ml	118% on C$ 75.01 - C$ 90.00 of DPP +100% on balance
700,710,750 ml	118% on C$ 65.01 - C$ 90.00 of DPP +100% on balance

(6) Saskatchewan

A minimum specific dollar per unit rate of mark-up applies if the 'display price' is lower when the percentage mark-up is applied. The specific mark-ups except for brandy and liqueurs are:

	Domestic (per bottle)	Imported (per bottle)
375 ml	C$ 4.10	C$ 4.30
710 ml	C$ 7.00	C$ 7.35
750 ml	C$ 7.70	C$ 8.10
1 litre	-	C$ 9.60
1.14 litre	C$11.60	C$12.20
1.75 litre	C$17.60	C$18.50
3.79 litre	C$60.00	C$63.00

A maximum specific dollar per unit rate of mark-up applies to brandy and liqueurs which are the same whether imported or domestic as follows:

	Brandy (per bottle)	Liqueurs (per bottle)
375 ml	C$ 6.00	C$ 4.65
750 ml	C$12.00	C$ 9.30

THE DOW CHEMICAL COMPANY

MIDLAND, MICHIGAN 48674

August 17, 1987

The Honorable Lloyd M. Bentsen
Chairman
Committee On Finance
United States Senate
205 Senate Dirksen Office Building
Washington, DC 20510

Dear Mr. Chairman:

On behalf of The Dow Chemical Company, this letter is in response to the request of your Committee for comments on the U.S. Canada free trade area negotiations.

In brief, we are in favor of a comprehensive and equitable Free Trade Agreement. Chemicals are among the four largest exports (vehicle and parts, electronic equipment, coal and chemicals) to Canada and this neighbor country is the industry's best customer. Dow has extensive sales to and operations in Canada and we are vitally interested in the process and outcome of negotiations.

While many aspects of these talks will impact our business, such as Rules of Origin, U.S. trade law treatment and uniform Provincial acceptance of a federal agreement, there are two which we deem critical -- tariffs and intellectual property rights.

It is important that tariff cuts be phased in over a minimum of five years and some more market sensitive products should reach out to ten years. In our global trading environment, business plans are based on many factors very much including tariffs and precipitous changes can significantly alter returns, investment and jobs. Unfortunately, it has been our experience and observation that abrupt tariff cuts have been a principal result of every major trade agreement since World War II.

We are very concerned about intellectual property rights because current Canadian law does not protect our patents, trademarks, and industrial processes well. This is especially true in pharmaceuticals where we are compelled to license Canadian firms to sell the same drugs in exchange for receiving only a 4% royalty. This is plainly self serving, certainly not within the spirit of any equitable trade pact, and discourages us from sending our precious and unique technology across the border.

Our company is actively engaged in monitoring the negotiations via participation in the American Coalition for trade expansion with Canada/ACTE/CAN, a diverse group of 450 firms from various sectors and regions formed in support of a comprehensive trade agreement with Canada.

We are also members of an Advisory Committee for Trade Negotiations/ACTN Task Force specifically formed to make sure the private sector was consulted during negotiations and to help develop an ACTN position on the draft agreement.

In general, we believe a Fair Trade Agreement with Canada is very appropriate for several overall reasons:

--Protectionism is not an answer to market access and the FTA could spur worldwide trade liberalization

--Many aspects of this comprehensive agreement could serve as a model for future talks especially in areas of non-tariff barriers like investment and services.

--At a time when our international competitiveness is at question an FTA with our principle trading partner should enhance global trading prospects for both parties. Elimination of tariff and non-tariff barriers and freer movement of natural resources and capital should promote business decisions based on real economics, not trade laws.

The Dow Chemical Company is pleased to have been asked to comment on these important and overdue negotiations. We will remain actively attached to the process and very much involved in the debate to reach agreement.

For: The Dow Chemical Company
Paul F. Oreffice
Chairman and Chief Executive Officer

Washington, D.C. Contact:
Lewis F. Gayner
Director of Regulatory and Legislative Affairs
Dow Chemical USA
1800 M Street, NW
Suite 700 South
Washington, DC 20036
202/429-3435

DOW CORNING POSITION ON

U.S.-CANADA TRADE AGREEMENTS

As a member of the American Coalition for Trade Expansion with Canada (ACTE/CAN), Dow Corning favors the conclusion of a comprehensive trade arrangement covering trade in goods and services and investment and the protection of intellectual property.

In addition to the broad benefits of a bilateral free trade agreement between Canada and the United States which ACTE/CAN has articulated elsewhere, it is the purpose of this letter to identify the benefits for Dow Corning.

THE DOW CORNING CASE

Dow Corning Corporation, a U.S. based corporation conducts its business of making, selling, and servicing specialty materials (primarily silicone materials) in most parts of the industrial world. The attached brochure profiles that business.

Dow Corning Canada Inc. is our vehicle for doing business in Canada. It represents the leading supplier position with sales of approximately 30 million U.S. $ in 1986.

All the products sold by Dow Corning Canada are either imported for resale or are produced from intermediates that are imported. The products produced from imported intermediates are in the minority and usually represent a local packaging requirement and/or more efficient management of inventories. This is also the profile of those companies with whom we compete.

The major supplying plants for Dow Corning Canada are located in the states of Michigan, Kentucky and North Carolina.

Although 80% of all exports from the U.S. to Canada cross the border duty free, that is not the case for Dow Corning products. Our health care business operates with duty-free imported products, however our industrial products, representing more than 80% of our business, pay duties ranging from 0% to 14.1%. In 1986, Dow Corning Canada Inc. paid duties amounting to 1.0 million U.S. $.

The logic for having duties on these specialty materials is puzzling. The protection of Canadian jobs cannot be the logic because there are no broad base manufacturers in Canada. The vast majority of Canadian employment necessary to support our business is related to selling and servicing -- not manufacturing. Dow Corning Canada has a modest population of 65 employees, of which only 5 are doing production activities.

The reduction to -0- of those dutiable items would be extremely beneficial to both the U.S. and Canadian elements of the Dow Corning world.

For Canada:

- A better chance for Canadian manufacturers (our customers using our products) to be world class competitive.
- A deeper penetration into those markets which are price sensitive.

For the United States:

- A better chance to keep and grow the manufacturing operations related to exports to Canada.

In summary, it is the position of Dow Corning that its products should be included along with the vast majority of U.S.-Canadian trade items -- in the duty free category.

DOW CORNING POSITION ON

U.S.-CANADA TRADE

SUMMARY

1. Dow Corning supports the aims and purposes of the American Coalition for Trade Expansion with Canada (ACTE/CAN).

2. Both Dow Corning's Canadian customers and it's U.S. supplying plants will benefit if our specialty material products and intermediates (primarily based on silicones) were put in the category of "duty free" items under a bilateral agreement directed at freer trade.

Eclipse

ECLIPSE, INC.

1665 ELMWOOD ROAD, ROCKFORD, ILLINOIS, U.S.A. 61103
PHONE 815/877-3031 TELEX: 25-7438 CABLE: EFECO

August 13, 1987

The Honorable Lloyd M. Bentsen
Chairman
Committee on Finance
United States Senate
205 Senate Dirksen Office Bldg.
Washington, D.C. 20510

Dear Mr. Chairman:

We would like to indicate our strong support of the ongoing U.S.-Canada free trade area negotiations. It is our hope that these negotiations will result in a comprehensive free trade arrangement covering trade in goods and services and investment and the protection of intellectual property.

Eclipse has operated a Canadian subsidiary company for over 30 years. During this period we have supplied industrial process heating equipment to virtually all of the major users in Canada and we see continued opportunity as Canadian manufacturing industries continue to develop.

The development of our business in Canada and our exports to Canada from the U.S. have been burdened with a number of uncertainties as a result of trade regulations and restrictions. We would like to be able to proceed with planning both in the U.S. and in Canada free of these restrictions and uncertainties.

It is also our strong hope that a free trade agreement might eventually lead to a rationalization of technical specifications between the U.S. and Canada.

We welcome the opportunity to make our views known and we look forward to an agreement which will lead to a new level of cooperation between the United States and Canada.

Very truly yours,

Gerry O. Sibley

Gerry O. Sibley
V.P. International Oper.

GOS:jmm

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TWX FARSHIP NY
01 NEW YORK NEW YORK AUG.17,87
PMS MS.LAURA WILCOX,HEARING ADMINISTRATOR
COMMITTEE ON FINANCE. ROOM SD-205
UNITED STATES SENATE
CAPITOL HILL DC 20510

GENTLEMEN:

IMMEDIATE ACTION IS ESSENTIAL TO ASSURE THE SURVIVAL AND GROWTH OF THE AMERICAN MERCHANT MARINE. OUR MILITARY ESTABLISHMENT REQUIRES A STRONG MARINE SUPPORT CAPABILITY TO GUARANTEE AN ADEQUATE DEFENSE OF OUR COUTRY.

EXISTING POLICIES MUST BE STRENGTHENED TO ASSIST THE MERCHANT MARINE TO SUPPLY SHIPS AND CREWS TO SERVICE OUR NAVY AND COMMERCE IN TIMES OF EMERGENCY. ANY FURTHER WEAKENING WILL HAVE DEVASTATING CONSEQUENCES.

ACCORDINGLY, FARRELL LINES STRONGLY ENDORSES SENATE CONCURRENT RESOLUTION 69 URGING THAT THE FREE TRADE AREA AGREEMENT BEING NEGOTIATED WITH CANADA NOT CONTAIN ANY CHANGES ADVERSELY IMPACTING THE MARITIME POLICY AND LAWS OF THE UNITED STATES.

RATHER, WE SHOULD UNDERTAKE STEPS TO STRENGTHEN AND SUPPORT THE MERCHANT MARINE ENCOURAGING ITS GROWTH TO BECOME A VIABLE ARM OF OUR NATIONAL DEFENSE.

VERY TRULY YOURS,

GEORGE F. LOWMAN
FARRELL LINES INCORPORATED

Comments Of

FLORIDA CITRUS MUTUAL

Concerning The Proposed U.S.-Canada Free Trade Area

These comments are submitted on behalf of Florida Citrus Mutual ("FCM") a voluntary cooperative association whose active membership consists of 12,169 Florida Citrus growers, accounting for the vast majority of the U.S. industry producing citrus fruit for processing. FCM offers these comments on the proposed U.S.-Canada Free Trade Area ("FTA"), pursuant to the Committee's invitation for comments.

As a general matter, FCM is not opposed to the negotiation of a Free Trade Area. However, as was true of the U.S.-Israel Free Trade Area and the GSP and CBI programs, it is important that any bi-lateral or unilateral elimination of tariffs carefully account for the possible distortions to trade which may result for import sensitive sectors of U.S. industry, and the program should avoid placing U.S. producers at a disadvantage vis-a-vis third country suppliers (consistent with the overall goals of Free Trade agreements under the GATT). Consequently, FCM wishes to highlight two aspects of the FTA proposal for the Committee's consideration.

(1) Duty Drawback

Pursuant to 19 U.S.C. §1313(a) and (b), and under procedures set forth at 19 CFR Part 191, U.S. exporters who have consumed imported materials in the production of U.S. commodities, may claim a drawback of duties paid on that imported material when the finished product is exported, as long as the exported article is produced within three years after the material is imported and the article on which drawback is claimed is exported within five years after the material is imported. This provision allows the U.S. manufacturer to maintain a competitive position against other exporting countries in the Canadian market.

The current U.S.-Canada FTA proposal seeks to eliminate duty drawback entirely (at least for manufacturing or substitution drawback) on trade between the United States and Canada so that no exports to Canada from the United States in which foreign (third-country) material was used, will be allowed the benefit of drawback. FCM believes that such a step will adversely affect U.S. exports of citrus juice to Canada in competition with third country imports directly into Canada, and will significantly erode U.S. citrus juice producers' ability to sell in that market. Since citrus juice imports into Canada are presently free of duty, the elimination of tariffs will not offer any benefit to offset the elimination of drawback. For this reason, we urge that drawback not be eliminated, or that, if it is to be revoked or curtailed, that citrus juices, in concentrated or single strength form, be excluded from any such action.

The U.S. industry has worked hard to remain competitive in recent years despite the rapid and massive growth of the largest orange juice producing country in the world -- Brazil. The domestic industry's import sensitivity has been well documented in recent years in both countervailing and antidumping duty investigations of frozen concentrated orange juice from Brazil, and in provisions inserted in the CBI, GSP, and U.S.-Israel Free Trade Area legislation, which acknowledge the industry's vulnerability and seek to counteract the effects of any rapid and damaging influx of imports. Against the background of this highly competitive world market, the U.S industry has been forced to contend with recent natural maladies, including consecutive freezes, which destroyed a substantial portion of Florida's citrus acreage, and the threat of canker infestation.

The U.S. industry purchases Brazilian orange juice concentrate for blending with concentrate produced from Florida oranges in order to extend supplies, meet U.S demand, and attempt to expand consumption abroad. Brazilian orange juice processors, in addition to supplying concentrate to independent U.S processors, also market their juice products directly through importation into U.S. foreign trade zones at Wilmington, Delaware and Port Elizabeth, New Jersey, for in-bond shipment to reprocessing facilities in Canada. U.S. processors, therefore, compete with Brazilian producers in both the United States and Canadian markets with both a 100 percent domestically-sourced product and with a U.S./Brazilian-blended product.

The current U.S. rate of duty on frozen concentrated orange juice, classifiable under TSUS 165.29, is 35¢ per single-strength equivalent gallon. However, imports of juice into Canada under most-favored-nation rates are duty-free. One method by which U.S. processors are able to compete with Brazilian producers in the Canadian market is through the availability of drawback, so that both supplying countries may compete on a zero-duty basis. However, the elimination of manufacturing or substitution drawback for U.S. exporters would eliminate this equal footing. U.S. processors would be faced with the alternative of selling only heavily discounted U.S.-origin juice in Canada and Brazilian product in the United States, or withdrawing from the Canadian market where direct Brazilian imports would encounter no duty.

Canada represents an important market to U.S. processors of citrus juice, accounting for a larger volume of U.S exports than any other destination. Although concentrated orange juice shipments to Canada declined from 1985 to 1986, from 22.3 to 15.2 million gallons (single-strength equivalent), the volume of exports has increased in 1987 over the first four months of the year. The decline in U.S. shipments to Canada is reflective of the increasing competitiveless of Brazilian shipments to that market, which increased from 17.1 million gallons for the first six months of 1985 to 32.7 million gallons for the first six months of 1986. (On the basis of the Brazilian processing season of July - June, Brazilian export shipments to Canada increased 20 percent from 1985-86 to 1986-87.) Where once U.S. processors accounted for the vast majority of orange juice imported into Canada, Brazil has displaced Florida as the predominant supplier to that market. The continued growth in Brazilian output should prevent any change in this situation for the foreseeable future. Therefore, the tools available to U.S. processors to enhance export activities are extremely important.

In light of the unique circumstances surrounding U.S. production and exportation of processed orange and grapefruit juices, FCM supports at least a limited and specific retention of drawback benefits under the U.S.-Canada FTA for exports of concentrated and single strength orange juice (Schedule B Commodity Nos. 165.3320, 165.3340, 165.3360, and 165.7400; Harmonized Export Commodity Nos. 2009.11.0020, 2009.11.0040, 2009.11.0060, and 2009.19.40) and concentrated and single strength grapefruit juices (Schedule B Commodity Nos. 165.31 and 165.71; Harmonized Export Commodity Nos. 2009.20.4020 and 2009.20.4040).

(2) Rules of Origin

The third country competition encountered by U.S. exporters in the Canadian market highlights the second concern of FCM: maintenance of strict country of origin rules for Canadian products receiving the benefit of duty free treatment, so as to prevent transshipment of non-Canadian citrus products through Canada to the United States. The background of origin rule development for special tariff programs, and the proven sensitivity of the U.S. processed citrus industry to imports, are important.

The U.S.-Israel Free Trade Agreement is governed by strict country of origin guidelines similar to those enacted in the Caribbean Basin Initiative and the Generalized System of Preferences legislation. These rules require that in order for a commodity to be treated as a product of one of the beneficiary countries, it must be the growth, product, or manufacture of such country and must meet a 35% value added requirement. The Congress has recognized the potential for abuse of special programs designed to benefit the joint participants, and not third countries which receive instead the general benefits of most-favored-nation treatment under GATT, by including restrictions against articles being treated as a product of the beneficiary country through simple combining or packaging operations or "mere dilution with water", which does not materially alter the characteristics of the article. See General Headnote 3(e)(viii)(C) of the Tariff Schedules of the United States. In enacting these strict origin rules, the Congress recognized the potential for diversionary transshipment from other countries, combined with minor and insignificant processing operations, to take advantage of large duty savings available under the bilateral or unilateral special tariff programs. With respect to citrus products, the import sensitivity of the U.S. industry, the importance of the U.S market, and the relatively high rate of duty for concentrated citrus juices present conditions which enhance the likelihood that third country exporters will attempt to use a free trade area beneficiary country as a conduit for duty-free or duty-reduced shipments to the United States. The potential for abuse was demonstrated to this Committee during its consideration of authorizing legislation for the U.S.-Israel Free Trade Area, when it was presented with data showing that a greater volume of orange juice was exported by Israel to its E.C. Free Trade Area partners than Israel was able to produce indigenously. This fact suggested that transshipment was occuring in order to avoid duties.

The U.S. Court of International Trade has ruled that the reconstitution of a concentrated citrus juice into a single-strength product is not a processing operation which substantially transforms the concentrated juice into a new and different article of commerce for purposes of the country of origin marking law, National Juice Products Association v. United States, Slip Op. 86-13, USCIT (Jan. 30, 1986). Florida Citrus Mutual strongly urges U.S. negotiators not to depart from the presently accepted principles of substantial transformation as applied to citrus products, in negotiating new rules of origin under the U.S.- Canada Free Trade Agreement.

Among the rules of origin proposed for the U.S.-Canada Free Trade Area is one which would treat as a substantial transformation any processing or production activity which results in specified changes in tariff classification, e.g., an activity which changes a raw material classified under one tariff chapter into a finished product classified under an entirely distinct tariff chapter. This approach, while applying a more mechanical and predictable rule, must, if actually adopted, provide for an automatic reassessment of any changes in tariff nomenclature (which may occur at any time and be unrelated to U.S.-Canada trade) as to their impact on origin rules. Paramount in this or any other origin rule adopted in the U.S. Canada agreement should be the concept that less significant processes which do not alter the fundamental character of a product should not impart FTA country origin status on the product, particularly with respect to concentrated and unconcentrated citrus juices.

Conclusion

Florida Citrus Mutual urges the Committee to recognize that total elimination of duty drawback in the U.S.-Canada Free Trade Area would have substantial adverse consequences for U.S. exporters of citrus juices (and perhaps other articles produced in the United States which rely upon imported materials). An agreement which purports to enhance and mutually benefit trade between the two countries should not penalize and restrict current export activities which contribute to a U.S. industry's international competitiveness. Furthermore, the agreement should contain country of origin rules at least as rigorous as the CBI, GSP, and Israel FTA programs in order to prevent transshipment.

Respectfully submitted,

Bobby F. McKown

Bobby F. McKown
Executive Vice President
Florida Citrus Mutual

BARNES, RICHARDSON & COLBURN
1819 H Street, N.W.
Washington, D.C. 20006

James H. Lundquist
Matthew T. McGrath

FOSTER WHEELER CORPORATION
110 SOUTH ORANGE AVENUE
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LOUIS E. AZZATO
President
and
Chief Executive Officer

TELEPHONE
(201) 533-[illegible]

August 7, 1987

The Honorable Lloyd M. Bentsen
Chairman
Committee on Finance
United States Senate
205 Dirksen Building
Washington, D.C. 20510

Dear Mr. Chairman:

As a supporter of the American Coalition for Trade Expansion with Canada (ACTE/CAN), we share their principles for a free trade agreement. The successful outcome of negotiations will ensure that the United States will become more competitive in world markets and will strengthen the American economy.

The advantages to our company and the industry as a result of a bilateral trade agreement will produce jobs, increase economic growth and lower prices for consumers. The economic philosophies of both nations are similar and a trade agreement would reaffirm the close ties of friendship that already exist between the two countries. Furthermore, a successful trade agreement would demonstrate the economic and political benefits of interdependence to the international community.

We are pleased that you and the Finance Committee are taking steps in advance of the conclusion of the U.S.-Canada negotiations to generate public awareness and national debate on this important matter.

Sincerely,

Louis E. Azzato

Louis E. Azzato

/dw

COMMENTS

ON

U.S. - CANADA FREE TRADE AREA NEGOTIATIONS

by

G. HEILEMAN BREWING COMPANY, INC.

SUMMARY

Unfair discriminatory and unreasonable trade barriers against the importation of American brewed malt beverages into Canada contribute to the substantial U.S. trade deficit with Canada and illustrate the need for free trade areas.

The Canadian trade barriers fall within five (5) categories:

1. A federal tariff on beer which is three times that of the U.S. tariff;
2. provincial listing rules which operate to exclude U.S. produced beer;
3. provincially mandated excessive mark-ups on U.S. beer imports, preventing realistic price competition;
4. provincial distribution constraints on imported beer, excluding those imports from sale in retail outlets accounting for 90% of beer sales; and
5. provincial quotas on U.S. beer imports.

While barriers differ between provinces, Canada as an entity is, because of discriminatory constraints, a market basically closed to American beer imports.

This statement is submitted by G. Heileman Brewing Company of La Crosse, Wisconsin (the 4th largest U.S. brewer operating 12 breweries located in Wisconsin, Indiana, Minnesota, Illinois, Washington, Maryland, Michigan, Arizona, Georgia, Texas and Oregon) in response to a Senate Finance Committee invitation to comment on U.S. - Canada free trade area negotiations. The Committee's inquiry

is particularly relevant because of the magnitude of the 13 billion dollar deficit the U.S. experiences in its trade with Canada.

The gross disparity between the 4,683,457 gallons of U.S. produced beer exported in 1986 to Canada (0.25 gallons per adult population) and the 61,328,994 gallons of Canadian beer exported that year to the United States (0.37 gallons per adult) in and of itself is sufficient to raise suspicions of discriminatory Canadian trade barriers. Proof of that discrimination is not hard to find!

Barriers in the U.S. to Canadian beer are either non-existent or minimal. U.S. import duties are extremely low, among the lowest among all developed countries. No discriminatory taxes or mark-ups are imposed. Canadian beer imports are freely available, stocked and sold throughout the U.S. in the same outlets and under the same terms and conditions as domestic beers.

In contrast, American beer exports to Canada face a wide variety of restrictive, artificial and discriminatory barriers not imposed on Canadian provincial beer. Under these conditions, U.S. imports into Canada cannot possibly enjoy free, fair or meaningful competition with Canadian beer.

Although exclusionary practices vary from province to province, onerous Canadian barriers generally fall within five (5) distinct categories, any one of which would be sufficient by itself to chill competition, with the cumulative effect of actually eliminating any reasonable pretense of competition throughout most of Canada from American produced malt beverages:*

1. Tariffs

The Canadian federal tariff on imported beer is more than treble the U.S. tariff on imported beer. Moreover, Canada imposes a significant separate and additional duty on the can or bottle containing the imported beer.

2. Listings

Before beer may be sold in a province, it must be granted a "listing" by the provincial Liquor Control Board (LCB). While provincial beers are freely listed, imports generally must apply for separate listings for each size of each type of package of each brand or label in order to permit that particular item to be sold in the province. Typically the LCB will either not list any U.S. brewed beers or will severely limit the listings of a U.S. importing brewer. U.S. brewers are frequently required by the LCB to delist an item in order to list a new item. Provincial brewers are free to market a vast and unlimited array of brand, package, type and size combination. The marketing advantage to a provincial brewer of being able to sell every size of every package of every brand in contrast to the U.S. brewer being confined, if able to get a listing at all, to a single package or two should be obvious.

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* 1985 data

The following chart illustrates the magnitude of this listing exclusionary tactic by contrasting the number of U.S. produced beer listings with the number of Canadian beer listings in representative provinces:

	Canadian listings	U.S. beer
British Columbia	77	6
Saskatchewan	45	0
Manitoba	58	6
Alberta	34	5
Ontario	181	3
Quebec	?	1
Nova Scotia	62	2
New Brunswick	51	1

3. Mark-ups

Mandated mark-ups,massively higher for imported beer than for provincial beer,are the general rule throughout Canada. This price advantage again constitutes an improper and serious trade barrier, impeding the ability of U.S. brewers to compete in Canada with Canadian brewed malt beverages.

The discrepancies between mark-ups for provincial beer and American produced beer in representative provinces is disclosed by the following:

	Provincial mark-up	Mark-up for U.S. product
British Columbia	43-54%	83% (based on landed cost)
Alberta	49%	57%
Saskatchewan	58%	60%
Manitoba	74%	75%
Ontario	21+%	80%
Nova Scotia	54.7%	81% plus 10% sales tax
New Brunswick	57-60% plus 10% sales tax	86% plus 10% sales tax

4. Distribution/Retail Sales Outlets

Applicable provincial rules permit the retail sale of imported beer only in LCB stores (which are primarily spirits and wine outlets) while provincial beer is stocked and sold by Brewers Retail Outlets, the source overwhelmingly preferred by Canadian beer consumers.

In Ontario, the Brewer Retail Stores, a state-created monopoly operated by Brewer's Warehousing Co., Ltd., (owned by 5 Canadian brewers) accounting for over 90% of all Canadian beer sales, refuses to stock and sell imported U.S. beer. Because provincial statutes authorize beer to be sold at retail only through spirits and wine stores or through Brewer's Retail, U.S. imports are automatically relegated to the non-preferred spirits and wine stores.

Another device limiting U.S. brewed beer sales to non-preferred retail outlets can be found in British Columbia, where at this writing, retail cold beer outlets, which reportedly are experiencing excellent sales, can not stock or sell U.S. beer imports. Similarly, in Manitoba only domestic beer may be sold in hotel "cold beer" stores. Moreover, British Columbia, Alberta, Ontario and Quebec also prohibit importation of U.S. brewed keg or bulk beer.

Reportedly, British Columbia appears to be in the process of removing discriminatory cold beer stores and keg beer impediments to free and fair trade between Canada and the U.S.

5. Quotas

The Canadian provinces of British Columbia, Ontario and Quebec establish quotas for imported beer but allow the marketplace to control availability of provincial beer.

G. Heileman Brewing Company appreciates the opportunity to file these comments and respectfully requests the Committee to contribute its influence to efforts designed to eliminate trade barriers to malt beverage trade between the U.S. and Canada.

Respectfully submitted:

Allan A. Rubin, Esq.
G. Heileman Brewing Company

The Goodyear Tire & Rubber Company

Akron, Ohio 44316-0001

Robert E. Mercer
CHAIRMAN OF THE BOARD

August 14, 1987

The Honorable Lloyd M. Bentsen, Chairman
Committee on Finance
United States Senate
205 Senate Office Bldg
Washington, D C 20510

Dear Mr Chairman:

This letter is in response to the request of your committee for comments on the U.S.-Canada free-trade negotiations.

The Goodyear Tire & Rubber strongly endorses immediate and complete eradication of all trade barriers between the U.S. and Canada. This matter is of deep and direct concern to all of our 60,000 North American employees who are engaged in daily competition with offshore producers just to maintain their livelihood.

Importation of tires from Asian, European and Latin American sources has skyrocketed this decade from 10% to 18% of the market. This represents over 10,000 direct tire industry jobs and thousands more in supplier industries. Yet Goodyear actually had a net favorable balance of trade in the first six-months of 1987 exporting over two-million passenger tires alone. With investment in increased productivity and the enlightened support of dedicated employees, we can be globally competitive. However, to do so requires taking advantage of the size of the North American market to achieve economies of scale. Particularly in the tire market, where our major customers produce on both sides of the U.S-Canada border, we need free access to markets and production sources to optimize cost of manufacturing and distribution.

Goodyear has operated in Canada since 1910 and employs nearly 5,000 workers in eight plants. Free-trade is just as vital to these people as it is to the 4,200 Texans who work for Goodyear and its subsidiaries. In order to compete with the current wave of imports, Goodyear must rationalize its production (increasing efficiency by specializing each plant in a few on the many types of tires required in the North American market place). We must invest in new, globally competitive plants to gain a share of Asian vehicle producers now planning to build plants in North America. Auto producers have long regarded this as a single market and the Autopact of 1965 between the U.S. & Canada has clearly benefited all North Americans. It is time to expand that principle to all goods and services.

Some Canadians will, understandably, fear rapid removal of all tariffs. It is true that, living under the protection of high duties, Canadian industry has not always remained globally competitive. The answer, however, is not in retaining tariffs which were responsible for that condition in the first place. The answer is in adopting investment incentives to bring their industry rapidly to "world class" standards.

Goodyear stands ready to meet the challenge of offshore producers with new, competitive world class facilities in tires, belts, hose and other rubber products. All we require from government is a competitive investment climate; a fair tax system which encourages investment, regulation that is cost/benefit justified and free movement of goods and services with our neighbors to the north.

A job in tire production in Ontario is a job for a synthetic rubber producer in Beaumont, Texas - a steel wire factory in N. Carolina - a chemical worker in Baytown. We are mutually dependent. The U.S. Senate has an opportunity to enhance that economic system by supporting free and open trade in an environment that stimulates investment in North American productivity.

R E Mercer
drk

Comments by

Thomas D. Martin
Chairperson
Great Lakes Commission

Concerning

U.S./CANADA FREE TRADE AREA NEGOTIATIONS

Summary

The Great Lakes Commission urges Congress and the Administration to formulate an international trade policy that is clear and effective and aims to promote U.S. exports and remedy unfair trade practices. The Commission also recommends the following sectors as warranting careful attention with respect to trade legislation and negotiations: auto, farm equipment, automotive parts, steel, machine tools, wood products, iron ore mining, export grain and dairy products.

U.S./Canada trade is of major significance for the Great Lakes Region. Canada is America's leading trade partner and much of that trade is with the eight Great Lakes States. To illustrate, in 1985 U.S. exports to Canada constituted 22 percent of U.S. total exports, and 57 percent of Canadian/U.S. trade was with the eight Great Lakes States. U.S./Canada trade matters, especially those that revolve around free trade area status and commodity-specific issues, are important to both the Region and the Nation.

One particular problem that the Commission is concerned about is the possible inclusion of the "Jones Act" in current U.S. - Canada free trade area negotiations. Canadian officials for the trade talks have identified U.S. cabotage trade (coastwise and inland) as a restricted trade area which they wish to enter. The threat to U.S. Great Lakes shipping and shipbuilding from this development would be extremely serious. Cargo diversion from U.S. to Canadian ports could occur over time. Also, there is the potential for extension of such an arrangement to Mexico. All U.S.-flag shipping and shipbuilding could be jeopardized.

The Commission recently adopted a resolution urging the Administration to exclude the "Jones Act" from consideration during the U.S./Canada trade talks and urged Congress to express support for preserving existing cabotage laws. The Commission firmly believes that any tampering with "Jones Act" provisions pertaining to restricted coastwise trade as part of a U.S./Canada trade agreement would seriously harm U.S. economic interests. The resulting imbalance in potential benefit to the two trade partners would be counterproductive to trade relations between Canada and the United States.

In addition, the U.S./Canada trade talks will not be successful unless the inequities of the U.S./Canada Auto Pact are remedied. The Great Lakes Region is heavily dependent on auto assembly and parts production and related industries. The potential for major job losses is substantial and will exist until these inequities are addressed.

International trade is a vital part of the U.S. economy. In recent years, the U.S. has had record trade deficits. Import penetration of domestic markets and non-tariff barriers to U.S. exports have become principal issues.

When compared to other regions, the Great Lakes States are particularly sensitive to changes in the international trade environment. The relative regional concentration of certain industries, e.g., export crop production, steel, machine tools, and autos has magnified the impacts of particular trade problems.

U.S./Canada trade is also of major significance for the Region. Canada is America's leading trade partner and much of that trade is with the eight Great Lakes States. To illustrate, in 1985 U.S. exports to Canada constituted 22 percent of U.S. total exports, and 57 percent of Canadian/ U.S. trade was with the eight Great Lakes States. Trade matters, especially those that revolve around free trade area status and commodity-specific issues, are important to both the Region and the Nation.

The Great Lakes Commission urges Congress and the Administration to formulate an international trade policy that is clear and effective and aims to promote U.S. exports and remedy unfair trade practices. The Commission's position further identifies the following sectors as warranting careful attention: auto, farm equipment, automotive parts, steel, machine tools, wood products, iron ore mining, export grain and dairy products.

One particular problem that the Commission is concerned about is the possible inclusion of the "Jones Act" in current U.S. - Canada free trade area negotiations. Canadian officials for the trade talks have identified U.S. cabotage trade (coastwise and inland) as a restricted trade area which they wish to enter. A 1986 GAO report, *Great Lakes Shipping - U.S. Flag Share of the U.S./Canada Trade on the Great Lakes*, indicated that Canadian vessels already account for nearly all of such international trade. The lower costs for Canadian vessel operation can be traced, in part, to specific Canadian shipbuilding subsidies and other governmental policies.

The threat to U.S. Great Lakes shipping and shipbuilding from this development would be extremely serious. Cargo diversion from U.S. to Canadian ports could occur over time. Also, there is the potential for extension of such an arrangement to Mexico. All U.S.-flag shipping and shipbuilding could be jeopardized.

The Commission recently adopted a resolution urging the Administration to exclude the "Jones Act" from consideration during the U.S./Canada trade talks and urged Congress to express support for preserving existing cabotage laws (resolution attached).

The Commission firmly believes that any tampering with "Jones Act" provisions pertaining to restricted coastwise trade as part of a U.S./Canada trade agreement would seriously harm U.S. economic interests. The resulting imbalance in potential benefit to the two trade partners would be counterproductive to trade relations between Canada and the United States.

In addition, the U.S./Canada trade talks will not be successful unless the inequities of the U.S./Canada Auto Pact are remedied. The Great Lakes Region is heavily dependent on auto assembly and parts production and related industries. The potential for major job losses is substantial and will exist until these inequities are addressed.

GREAT LAKES COMMISSION

RESOLUTION

U.S./CANADA BILATERAL TRADE NEGOTIATIONS AND PRESERVATION OF CABOTAGE LAWS

WHEREAS, a strong and healthy United States-flag merchant marine has been the policy of this nation for two hundred years in order to assist the strategic defense of the United States, as well as to create jobs and promote our commerce in foreign markets; and

WHEREAS, the "Jones Act" and other cabotage laws were enacted to reserve the coastwise trade to vessels of American construction, crewing and documentation; and

WHEREAS, the American merchant fleet has experienced a disastrous decline over a period of many years, despite the best efforts of the Congress to halt the decline and U.S. merchant shipping on the Great Lakes has been significantly reduced; and

WHEREAS, Canadian-flag share of the U.S./Canada trade on the Great Lakes is over 90 percent; and

WHEREAS, a major reason for the Canadian advantage in U.S./Canada Great Lakes trade was the availability of shipbuilding subsidies and tax incentives dating back to the end of World War II; and

WHEREAS, the Canadians, through the U.S./Canada Bilateral Trade Negotiations, have identified the U.S. cabotage trade as a restricted trade area and have expressed an interest in participating in the full North American cabotage trade; and

WHEREAS, such Canadian participation in the U.S. cabotage trade would further depress U.S. shipping and shipbuilding and could decimate U.S. Great Lakes shipping and shipbuilding industries; and

WHEREAS, the proposed "North American Jones Act" could include Mexico and potentially affect all domestic shipping and shipbuilding.

NOW THEREFORE BE IT RESOLVED that the Great Lakes Commission urges the Administration to take action to exclude the "Jones Act" from consideration during the U.S./Canada Bilateral Trade Negotiations.

BE IT FURTHER RESOLVED that the Great Lakes Commission urges Congress to express its support for preserving existing cabotage laws.

Adopted by Great Lakes Commission
Executive Committee July 10, 1987 (by phone poll)

GREAT LAKES SEAMEN
Local 5000

United Steelworkers of America

7055 ENGLE ROAD
SUITE 5-501
MIDDLEBURG HTS., OHIO 44130

Phone: 216/243-7000

August 20, 1987

ATTN: Laura Wilcox
Hearing Administrator
Committee on Finance
Room SD-205
United States Senate
Washington, D.C. 20510

U.S./CANADA FREE TRADE AREA AGREEMENT NEGOTIATIONS

Dear Madam Wilcox:

We are opposed to a U.S./Canada Free Trade Agreement and ask that you please consider the devistation that will be realized in the entire Great Lakes' Region if there is a change in the Jones Act allowing such.

Our Local 5000 represents six (6) shipping fleets on the Great Lakes. Allowing Canadians, or any other nation with treaties of amity and commerce, to ship from American Port to American Port would literally wipe us out, and when the dominoes start to fall, the Great Lakes Maritime industry as well as the satelites it supports will also plummet.

Maritime issues must be removed from the Free Trade Area Agreement Negotiations. Our livelyhood depends on it.

Respectfully,

James W. Mayhew
Vice President

JWM/1

cc: Mary McAuliffe, Minority Chief of Staff
United States Senate, Committee on Finance

Statement of
Melvin H. Pelfry
Chairman
# of the
Great Lakes Task Force
regarding the
U.S.-Canada Free Trade Negotiations

The Great Lakes Task Force, a coalition of carrier, shipper, labor and government interests organized to advance the U.S.-flag Great Lakes maritime industry, would like to address an issue of concern to those of us who derive our livelihoods from the Great Lakes. It has come to our attention that maritime services may be included in the negotiation of a free trade area agreement between the United States and Canada. The Task Force fully believes that since Canadian-flag vessel operators already dominate the bilateral waterborne bulk trade between the United States and Canada, they should not be given additional opportunities, under the guise of a free trade agreement (FTA), to further participate in trades reserved for the U.S.-flag merchant fleet. Determined steps must be taken to insure that additional access is not granted and the problem of Canadian domination is not further exacerbated.

The maritime policies and programs of the United States were enacted to serve national transportation and defense needs and their continued existence is essential. The intent of these programs is not to establish barriers to free trade, but to ensure the maintenance of a strong U.S. merchant marine able to carry the nation's commerce and provide assistance to the U.S. Armed Forces in times of emergency. Therefore, America's promotional maritime policies and programs should not be considered as impediments to international commerce nor subject to treaty negotiations. With regard to these negotiations, it is important to examine the current bilateral trade environment and discuss various negative outcomes that would result if such programs are included in an FTA.

As you well know, the United States and Canada are the world's largest trading partners. The Great Lakes/St. Lawrence Seaway system and the surrounding region are important components of the transportation and economic infrastructures of both nations and account for a significant portion of the bilateral trade . Within its perimeters lie the industrial and agricultural bases which have formed the cornerstones of American and Canadian economic development. However, within our country, this region has been beset with a severe economic slowdown in recent years. The Task Force firmly believes that if maritime services are included in an FTA, the U.S. Great Lakes region and the U.S.-flag Great Lakes fleet in particular will suffer tremendous damage.

The historical decline of the U.S. merchant marine is staggering. Currently, the U.S. merchant marine carries only 4.3 percent of the Nation's total international waterborne commerce. The size of the U.S.-flag fleet is rapidly dwindling. In 1965, this Nation had 948 ships operating, employing more than 48,000 seafaring personnel. As of January 1, 1987, the U.S.-flag merchant fleet totaled 360, with less than 100 vessels on the Great Lakes. An additional 96 vessels were laid up. The number of seafaring jobs now number less than 11,000.

The Canadians already enjoy a substantial share of the waterborne trade in the Great Lakes region. The General Accounting Office (GAO) published a study last year entitled, Great Lakes Shipping: U.S.-Flag Share of the U.S./Canada Trade on the Great Lakes. The study found that of the 40 million tons of waterborne trade between the United States and Canada on the Great Lakes and the St. Lawrence Seaway, only 6.4 percent was carried by U.S.-flag ships. Since the Canadians already dominate this trade on the Lakes, the Task Force believes that the Canadians should not be allowed additional access to cargoes generally reserved for U.S.-flag vessels The GAO study contributed the domination of Canadian Great Lakes carriage to several factors.

First, Canadian vessel operating and construction costs are generally considered lower than those in the United States. This is due, in large part, to the decline in the Canadian dollar relative to the U.S. dollar which has, in effect, lowered construction costs and freight rates for commodities carried on Canadian vessels. Currently, the Canadian dollar equals 75 cents in U.S. currency. This allows Canadian operators to underbid U.S. operators and still reap a profit.

Second, advantages offered Canadian operators include accelerated depreciation schedules for new ships, tax incentives, and direct shipbuilding subsidies, which resulted in the construction of a modern Canadian Great Lakes fleet that captured the Great Lakes market for maritime services. In contrast, the U.S. government has practically eliminated the construction differential subsidy, repealed the investment tax credit, lengthened amortization schedules, and is attempting to discontinue future Title XI ship mortgage guarantees.

Third, operating and construction subsidy programs were not made available to U.S. Great Lakes bulk vessel operators until the passage of the Merchant Marine Act of 1970. By that time, the Canadian fleet had greatly increased their market share, therefore virtually no U.S. operators utilized the programs. Besides, U.S. vessels constructed with subsidies do not have the flexibility, as do Canadian vessels, to engage in the lucrative domestic commerce.

A fourth reason for the de facto dominance of Canadian vessels in the U.S./Canada Great Lakes trade is that a significant part of the trade is tied up in long-term contracts between Canadian vessel operators and Canadian buyers of the raw materials. These contracts run up to 10 and 25 years. In many instances, the buyer helped finance the vessel, therefore the operator grants low, long-term contracts, leaving little room for U.S. competition.

Further, Canada's Shipping Act or cabotage law requires, as does America's counterpart, the Jones Act, that all domestic cargo be transported on domestically registered ships but, it does not require that the ships be constructed in domestic shipyards, as does the Jones Act. As a result, Canadian Great Lakes operators may purchase lower-cost foreign built ships and use them for both domestic, upon payment of a 25 percent duty, and international trade. Second-hand purchases have allowed Canadian operators to offer lower freight rates due to reduced overhead and debt financing.

Overall, it appears that the Canadians have come to dominate the bilateral trade due to substantial government subsidies, favorable long-term business relationships and flexible operating requirements. Once these Canadian advantages are made apparent, it appears reasonable to assume that opening the U.S. market to Canadian operators will totally exclude future U.S.-flag operations. The negotiation of a U.S./Canada FTA could possibly transform America's domestic trade into international trade, one that is sure to be overtaken by Canadian-flag operators offering lower rates.

If negotiations allow Canada to participate in our domestic maritime trades or in the nation's government procurement programs, the nation's merchant marine fleet could become extinct, costing thousands of jobs and eliminating a trained and ready manpower pool essential in times of emergency. In addition, the inclusion of maritime services in an FTA would exacerbate the problems associated with the burgeoning foreign trade deficit, particularly America's ocean freight trade deficit with Canada which has totaled $344 million in the past five years.

Furthermore, Canadian-flag carriers do not, or would not have to employ U.S. citizens or pay U.S. taxes, thereby adding to the budget and trade deficits.

The Canadians must not be allowed access to U.S. government procurement of services or America's domestic waterborne trades because the proposed benefits of such an arrangement would not materialize for U.S.-flag operators. In fact, the Great Lakes maritime industry, due to its proximity, will likely experience the first negative consequences if U.S. government procurement and maritime programs are included in an FTA with Canada.

The U.S. maritime market dwarfs the Canadian market by comparison. America's domestic commerce accounts for 47.5 percent of total tonnage on the Lakes/Seaway while, the Canadian domestic trade accounts for only 23 percent of the total tonnage. In other words, the American Great Lakes market is roughly twice the size of the Canadian market. On the Great Lakes alone, U.S. domestic waterborne commerce amounted to 87.5 million tons in 1984. This trade employs fewer than 100 vessels on the Lakes. Competition from foreign-built Canadian vessels cannot be tolerated by U.S. Great Lake operators. Additionally, Canada, with its smaller population and limited market for maritime services, cannot offer reciprocal benefits to U.S. operators. Therefore, it is likely that Canadian operators will garner more than twice the benefits of American operators should both domestic markets become open to bilateral competition.

The Task Force believes that market access should be clearly subject to existing statutory provisions governing maritime transportation and government procurement programs. Since the Canadians already control over 95 percent of the international cross-Lakes trade between the United States and Canada, it is not necessary and would be extremely damaging to the U.S. merchant marine and the Great Lakes region to open America's domestic commerce to foreign competition. If this bilateral agreement were to include such provisions, a dangerous precedent would be set that might lead to additional intrusions against the U.S. merchant marine.

Allowing Canadian firms to bid on government contracts for services would further diminish U.S. maritime capabilities and increase the U.S. balance of payments deficit. For instance, the Military Sealift Command (MSC), a component of the United States Navy, is currently the largest single employer of seafaring labor in the United States. Through MSC procurement programs, the United States obtains shipping services from the private sector which are both cost effective and efficient. Those contracts help to maintain the few remaining merchant vessels and the dwindling supply of seafaring labor, which are both in critically short supply yet vital to national security. Allowing Canadian operators to bid on MSC contracts, could displace active U.S. vessels and seafaring personnel.

In addition, other forms of maritime procurement, such as Navy and Coast Guard shipbuilding contracts, which are reserved for American shipyards, would likely be diminished because of the proximity of lower cost Canadian shipyards. The United States Coast Guard has recently established an office of private sector acquisition which intends to contract some routine Coast Guard functions out to the private sector. Canadians must not be allowed to bid on any contracts let by the U.S. Coast Guard which would otherwise go to U.S.-flag operators.

Finally, the most important maritime program which could be laid bare to Canadian operators is carriage of the nation's domestic waterborne trade. The Merchant Marine Act of 1920, commonly known as the Jones Act, requires that cargo moving from one U.S. point to another point in the United States must be carried aboard vessels which are built in the United States, crewed by U.S. citizens, and owned by U.S. citizens. The purpose of this law is to provide for the maintenance of a U.S.-flag merchant marine which is "sufficient to carry the greater portion of its nation's commerce and serve as a naval or military auxiliary in time of war or national emergency, ultimately to be owned and operated privately by citizens of the United States".

If the above government procurement practices and/or maritime promotional programs are opened to Canadian operators, the U.S. Great Lakes maritime industry will suffer unbearable repercussions. Therefore, the Great Lakes Task Force respectfully urges the Committee to support the removal of maritime services from the scope of the U.S./Canada free trade area negotiations.

**GREATER
NEWARK**
CHAMBER OF COMMERCE
SERVING METRO NEW JERSEY BUSINESS

August 13, 1987

Honorable Lloyd Bentsen
Chairman of the Senate Finance Committee
United States Senate
205 Dirksen Building
Washington, D.C. 20510

Dear Senator Bentsen:

The Greater Newark Chamber of Commerce, a business organization with over 2,500 members, supports the U.S. - Canada free trade negotiations.

We believe that any talks aimed at the removal of trade barriers between the world's largest trading partners will widen our business opportunities in the Canadian market. Canada is the biggest purchaser of American manufactured goods. The prospects for expanding our exports to Canada heavily depends on reaching a comprehensive and equitable trade agreement with the Canadians.

New Jersey firms are among the forerunners of American companies doing business in Canada. In 1983 our industrial sector exported $6.8 billion of manufactured goods to Canada. An estimated 73.1 thousand jobs were sustained by export-related sales of the state's manufacturers that year. In addition, an estimated 59.1 thousand workers in such non-manufacturing industries as transportation, communications and services owe their jobs to New Jersey's output of export-related manufacturers. The strong links between New Jersey and Canada can also be seen in the presence of 51 Canadian subsidiaries operating in our state.

In the coming years the best prospects for expanding U.S. export trade with Canada are in the industrial sectors. Among the best opportunities are computers, peripherals, auto parts and accessories, building products, aircraft and parts, telecommunications equipment, plastics materials and resins, construction machinery and parts, analytic and scientific instruments, and industrial process controls. To ensure that foreign competitors do not displace our products from this market we need to act quickly and move forward the bilateral trade talks with Canada.

Senator Bentsen, I cannot over emphasize the importance of supporting free trade negotiations between the U.S. and Canada. We have a lot to gain from it. On the other hand, our foreign competitors would stand to benefit from the failure of these talks.

Sincerely,

Richard Schoon
Richard G. Schoon
President

STATEMENT OF THE
INDEPENDENT BAKERS ASSOCIATION
REGARDING U.S. - CANADA
FREE TRADE AREA NEGOTIATIONS

SUMMARY STATEMENT:

THE INDEPENDENT BAKERS ASSOCIATION OBJECTS TO U.S. BAKED GOODS EXPORTS BEING RESTRICTED BY CANADA. WHEN WHOLESALE FINISHED BREAD PRODUCTS ARE SHIPPED NORTH THEY MUST BE LICENSED BY THE CANADIAN WHEAT BOARD. THE LICENSING IS ONE SIDED; CANADIAN WHOLESALE FINISHED BREAD PRODUCTS ARE NOT SUBJECT TO ANY REGULATIONS WHEN ENTERING THE U.S.

THESE LICENSES ARE DIFFICULT TO OBTAIN AND OFTEN REQUIRE RENEWAL EVERY 45 DAYS. IT IS IMPORTANT THAT U.S. NEGOTIATORS PUSH VIGOROUSLY FOR THE ELIMINATION OF CURRENT RESTRICTIONS ON U.S. BAKED PRODUCTS EXPORTED TO CANADA IN THE INTERESTS OF FAIRNESS AND CONVENIENCE TO BOTH COUNTRIES.

MR. CHAIRMAN, THE INDEPENDENT BAKERS ASSOCIATION THANKS YOU FOR THE OPPORTUNITY TO OFFER COMMENTS FOR THE PUBLIC RECORD REGARDING RESTRICTIVE PRACTICES BY THE CANADIAN WHEAT BOARD ON EXPORTS OF UNITED STATES WHOLESALE BAKED GOODS TO CANADA.

IBA IS A NATIONAL TRADE ASSOCIATION WITH OVER THREE HUNDRED MEMBERS. OUR MEMBERSHIP IS COMPRISED MOSTLY OF FAMILY OWNED SMALL AND MEDIUM SIZED WHOLESALE BAKERIES AND ALLIED INDUSTRIES SERVING THE BAKING INDUSTRY. OUR AVERAGE MEMBER EMPLOYS 250 WORKERS AND HAS 20 MILLION IN ANNUAL SALES. COLLECTIVELY OUR MEMBERSHIP BAKES AN ESTIMATED ONE HALF OF THE BAKED GOODS IN THE UNITED STATES.

FOR YEARS OUR MEMBERS ACROSS THE NORTHERN UNITED STATES FROM MAINE TO WASHINGTON STATE HAVE OBJECTED TO THE RESTRICTIVE PRACTICES OF THE CANADIAN WHEAT BOARD. IT IS FRUSTRATING FOR U.S. BAKERS WHO SHIP PRODUCTS ACROSS THE BORDER TO CANADA TO BE SUBJECT TO COMPLICATED LICENSING PROCEDURES.

THE CANADIAN WHEAT BOARD HAS A HISTORY OF PROTECTING DOMESTIC MARKETS FOR CANADIAN WHEAT PRODUCTS DATING BACK TO THE 20'S. THE CONTROL OF THE CANADIAN WHEAT BOARD EXTENDS TO ALL IMPORTS OF WHEAT AND WHEAT BASED PRODUCTS. THE RIGHT OF CANADIAN WHEAT BOARD TO ADMINISTER THE SYSTEM WAS "GRANDFATHERED IN" WHEN CANADA JOINED THE GENERAL AGREEMENT ON TARIFFS AND TRADE. AS A RESULT THERE IS NO GATT RELIEF AVAILABLE TO AMERICAN BAKERS.

IBA MEMBERS HAVE INDICATED THE CANADIAN WHEAT BOARD IS SLOW TO GRANT AND RENEW LICENSES TO ALLOW U.S. GOODS TO BE PLACED FOR RESALE IN RETAIL ESTABLISHMENTS IN CANADA. THE LICENSING PROCESS IS COMPLICATED, VERY DETAIL SPECIFIC AND REQUIRES RENEWAL EVERY 45 DAYS. WHEN A U.S. BORDER STATE BAKER RECENTLY WON A LARGE CONTRACT TO SUPPLY CANADIAN FAST FOOD OUTLETS WITH BUNS AND ROLLS THE CANADIAN WHEAT BOARD REFUSED TO GRANT A LICENSE TO PERMIT EXPORT. U.S. BAKED GOODS ARE RARELY GRANTED EXPORT LICENSES TO CANADIAN FAST FOOD OUTLETS BY THE CANADIAN WHEAT BOARD, EVEN WHEN LOCAL CANADIAN SOURCES OF THE PRODUCT ARE NON-EXISTANT.

IN CONTRAST CANADIAN WHOLESALE BAKED GOODS ARE ALLOWED ENTRY TO THE UNITED STATES WITHOUT LICENSES. THE RESULT IS THAT CANADIAN BAKED GOODS HAVE PENETRATED U.S. MARKETS AS FAR SOUTH AS WASHINGTON, D.C.

THE RESTRICTIVE POLICIES OF THE CANADIAN WHEAT BOARD SERVE TO PROTECT CANADIAN BAKERS UNFAIRLY. THE U.S. - CANADA FREE TRADE TALKS PRESENT THE PERFECT OPPORTUNITY FOR THE U.S. TO TRY TO LEVEL THE PLAYING FIELD WITH RESPECT TO THESE RESTRICTIVE CANADIAN PRACTICES. IT IS IMPERATIVE THAT THOSE PERSONS WHO REPRESENT THE UNITED STATES AT THESE TALKS KEEP IN MIND BOTH THE UNFAIRNESS OF THE CANADIAN WHEAT BOARD RESTRICTIONS AND THE INCONVENIENCE TO THE U.S. BAKING INDUSTRY AND POTENTIAL CANADIAN CLIENTS ALIKE.

CONTACT: ROBERT N. PYLE, PRESIDENT
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COMMENTS

presented by the

INDEPENDENT ZINC ALLOYERS ASSOCIATION

on the

U.S./CANADA FREE TRADE AREA NEGOTIATIONS

SUMMARY

The zinc alloying industry, with its protective duty, could be transferred to four giant Canadian zinc mining/smelting companies by a U.S./Canada Free Trade Area (FTA) agreement. The industry produces zinc alloys for castings to be used in thousands of products from automobiles to furnishings hardware.

The Independent Zinc Alloyers Association (IZAA) represents approximately 60% of all independent alloy producing companies in the United States. The majority of the member companies are family-owned and are not connected with zinc producing facilities or end-use manufacturing companies.

Reduction of a 19% ad valorem duty which has been in place since 1961 in the U.S./Canada FTA agreement will allow the Canadian zinc companies to capture the U.S. zinc alloy market and also get the protection of the 19% duty which will remain in place against all other countries of the world (The agreement would reduce duties only between the U.S. and Canada).

IZAA urges that unwrought alloys of zinc (TSUS 626.04) be designated in the U.S./Canada FTA negotiations as an article for continuance of United States duty.

PREFACE

This statement is respectfully submitted by U.S. independent zinc alloyers in response to the request for comments issued by the Senate Finance Committee on the U.S./Canada Free Trade Area (FTA) negotiations.

The Independent Zinc Alloyers Association, Inc. (IZAA), located at 1000 Sixteenth Street N.W., Suite 603, Washington, DC 20036, urges that unwrought alloys of zinc (TSUS 626.04) be designated in the U.S./Canada FTA negotiations as an article for continuance of United States duty under Sections 102 and 131 of the Trade Act of 1974. IZAA requests that the duty on zinc alloy between the U.S. and Canada be continued to avoid the destruction of a vital domestic industry and the substitution of a Canadian industry which then would have the protection of the U.S. duty against the rest of the world.

GIFT OF A U.S. INDUSTRY INCLUDING A PROTECTIVE DUTY TO CANADA

Twenty-six independent zinc alloyers comprise a vitally important domestic industry upon which thousands of manufacturers of industrial and consumer products rely for zinc alloys. The entire industry, plus a U.S. protective duty, could be transferred to four giant Canadian zinc mining/smelting companies by a U.S./Canada Free Trade Area (FTA) agreement.

A duty on zinc and zinc alloys has been in place in the

United States since the early 1920's. In 1961, Congress set the duty on zinc alloy at 19% ad valorem.

Reduction of this duty below 15% in the U.S./Canada FTA agreement will allow the four world class Canadian zinc companies to capture the U.S. zinc alloy market and also get the protection of the 19% duty which will remain in place against all other countries of the world. (The U.S./Canada agreement would reduce duties only between the two participating countries.)

A questionnaire was distributed last year by IZAA to the independent alloying companies on a business confidential basis. (At the time the questionnaire was distributed, there were 28 independent alloying companies). The production capacity of the companies who responded to the questionnaire represented 80.5% of the capacity of the 28 companies.

The study, which examined the sales, price, and employment structure of the industry and the effects of imports of zinc alloy from Canada with a duty of less than 14% or 15%, showed that 44% of the companies responding to the IZAA questionnaire reported that if imports caused a 50% reduction in their business they would be forced to shut down their operations. Others reported they would discharge 18-75% of their employees. Respondents also reported the ratio of skilled to unskilled employees was approximately 1 to 3. Most plants are located in urban areas and the employment displacement would fall heavily on urban minority personnel.

Therefore, the lowering of the 19% duty in the FTA would open the U.S. market to Canadian competition at the expense of domestic companies and then protect those Canadian companies from foreign competition with a U.S. duty.

Zinc alloy is made mostly from imported producer (slab) zinc and small quantities of alloying metals. U.S. slab zinc producers can supply only 20% of the 1,000,000 tons of zinc consumed annually in this country. The rest is imported; 60% of it from the four Canadian zinc companies.

It costs independent zinc alloyers between 6 and 7 cents per pound to produce zinc alloy. Any of the four large Canadian zinc companies could produce alloy at a cost of 1 to 1.5 cents per pound as just another product of their smelting operations. Domestic independent zinc alloyers could not compete against the Canadians.

We respectfully request that the zinc alloy duty be exempted from U.S./Canada negotiations.

There are recent precedents for exemptions:

> in the 1979 Tokyo GATT round, zinc alloy was not negotiated because it was declared import sensitive by the U.S.;
>
> in the Caribbean Basin Initiative, handbags, work gloves, textiles and canned tuna fish were exempted;
>
> in the U.S./Israel Free Trade agreement, roses, tomato products, and frozen orange juice concentrates were exempted with a review after ten years.

The Canadian zinc companies already have a strong presence in U.S. markets for other zinc products. They easily could sell zinc alloys in this country.

THE ZINC ALLOY INDUSTRY

The production and distribution channels of the zinc industry are multi-tiered. First tier companies, the producers, either mine zinc ore, which is found in the earth with silver and lead, refine it into a zinc concentrate and smelt it into grades of slab zinc, or, they buy zinc concentrates and produce slab zinc. Slab zinc is the generic term for zinc metal in its first form.

Second tier companies include independent alloyers who produce zinc alloys for castings to be used in thousands of products from automobiles to furnishings hardware (Attachment A).

There are only three zinc producer companies in the United States. They supply approximately 20% of our domestic annual requirements. Most of the slab zinc consumed in the U.S. is imported. Independent zinc alloyers must import 90% of the special high grade slab zinc they need to produce zinc alloy.

The independent zinc alloyers are the chief channel of distribution for zinc alloy to the U.S. market. Their share of the market has been consonant with the demand for casting alloys for industrial and consumer products.

ATTACHMENT A

Consumer Products Containing Zinc Alloys

air clamps
alarms
audio speakers
automatic & hand mixers
bathroom accessories & hardware
bindings
blenders
boring jigs
cable shieldings
cameras
can openers
carburetors
cavity wall ties
chisel sharpeners
coping covers
clarinets
clocks
copy machines
cutters & grinders
dictating equipment
dishwashers
door handles & hardware
door post assemblies
downspouts
drums
electric drill attachments
electric planes
electric ranges
electrical fuses
grass shears
gravel stops
grills
grommets
gutters
head & air conditioning outlets
head & tail-light housing
high fidelity microphones
hoists
hood ornaments
impellers
instrument panels
intercoms
jewelry
lamps & spotlights
lawn mowers
lawn sprinklers
locks
mandrels
marine engine blocks
microscopes
microwave ovens
moldings
motor fans
motor frames
nails
offset printers
package sealers
paint

embossing tape
fans
farm implements
file cabinets
flanges
flashing
flexible ruler housing
floor polishers
fractional HP motors
frames
fuel pumps
furniture
gas engine components
gaskets
glacier points
golf clubs
paint spray air compressors
parking meters
pencil sharpeners
peppermills
plane irons
portable TVs
printing dies
pumps
record players
registers
roof seams
scales
side mirrors
slicers
slide projectors
staplers
steering wheels
stencils
switches
tags
tap & reamer wrenches
telephone sets
templates
termite shields
Theodolite (telescope)
time recorders
toys
transformer housings
tube shields
tubing brush
vending machines
washers
washers & dryers
wheel frames
window channels
windshield frames
X-ray meters

International Business Machines Corporation

Office of the IBM Director
Public Affairs

1801 K Street, Northwest, Suite 1200, Washington, District of Columbia 20006

August 13, 1987

The Honorable Lloyd M. Bentsen
Chairman
Committee on Finance
Room SD-205
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

We are pleased to submit the attached comments on the current U.S.-Canada free trade negotiations in response to the request of your Committee.

We strongly support these negotiations. A comprehensive U.S.-Canada agreement would benefit both economies, and improve the ability of U.S. and Canadian firms to compete worldwide. It could also stimulate multilateral efforts within the GATT to expand world trade and investment.

Our views are widely shared. Over 450 U.S. firms have joined the American Coalition for Trade Expansion with Canada (ACTE/CAN), of which IBM is a founder member, to promote a successful negotiation. We hope our input will be helpful to you in ensuring that an agreement is concluded which maximizes the benefits available to the U.S.

Sincerely,

D.C. Worth

D. C. Worth

DCW/gyw
Attachment

IBM AND THE U.S.-CANADA FREE TRADE NEGOTIATIONS

Summary

- A broad free trade agreement between the U.S. and Canada could significantly benefit both the U.S. and Canadian economies and encourage more open business environment joining these two countries. Coverage of an agreement should as much as possible extend to Canadian provinces and the U.S. states.

- Such an agreement could also spur progress on the Uruguay Round of multilateral trade negotiations in the GATT and offer a model for handling many of the new issues on the Uruguay Round agenda. The success of the Uruguay Round is essential to the vitality of the world economy.

- There is substantial support for the U.S.-Canada negotiations within the U.S. business community. IBM is a member of the steering committee of ACTE/CAN, a coalition formed to promote the conclusion of an effective and comprehensive free trade agreement. ACTE/CAN represents over 450 U.S. firms in a wide range of sectors and regions.

- IBM has experienced few problems in its U.S.-Canadian trade and investment activities. However, improvements can be made, for example by eliminating remaining tariffs, establishing clearer rules of origin, and reducing non-tariff barriers in areas such as government procurement. Further, in order to guard against any erosion or regression in the overall trade relationship between the two countries, it is important that the agreement make progress on the definition of subsidies and on methods for effective dispute settlement.

- IBM believes that agreements in the new areas of intellectual property protection, services and investment are especially desirable. These issues are of growing importance, particularly for technology-intensive industries with a global market strategy. The U.S.-Canada results should create constructive precedents for the GATT. Because the other trading partners of both countries will take note of the results, the agreement is an opportunity for world leadership.

- Failure to reach agreement with Canada could set back not only U.S.-Canada trade relations, but prospects for expanding world trade and investment through multilateral negotiations in the GATT. Because the other trading partners of both countries will take note of the results, the agreement is an opportunity for world leadership.

Background

The U.S. and Canada enjoy the largest bilateral trading relationship in the free world, amounting to more than $124 billion in 1986. The current free trade negotiations between the two countries are aimed at the conclusion of a comprehensive agreement that not only would eliminate tariffs completely by the year 2000, but significantly reduce or eliminate the majority of non-tariff barriers.

Such an agreement could produce major benefits for both countries. In some sectors it would open up new cross-border market opportunities. In many more it would give companies greater flexibility to rationalize their operations in the two countries, thereby reducing costs, increasing productivity and leading to improved competitiveness for these companies not just in North America but in world markets.

A U.S.-Canadian open market could also contribute to the world economy. It would expand the zone of free competition and fair treatment in world markets. And it could advance prospects for widening that zone through the multilateral trade negotiations in the Uruguay Round of the GATT by creating model approaches for handling new trade issues and encouraging other nations to join in reaping the benefits of greater openness.

We are pleased that the talks are proceeding under the "fast-track" negotiating authority currently granted to the President and we recognize that the time for making deals and decisions is fast approaching. There is wide support within the U.S. business community for a comprehensive free trade agreement with Canada. IBM is a member of the steering committee of the American Coalition for Trade Expansion with Canada (ACTE/CAN), launched in June 1987, which already has over 450 U.S. firms among its members. The Coalition's purpose is to promote efforts to reach a comprehensive agreement which maximizes benefits to the U.S. economy. Neither IBM nor the Coalition would wish to endorse the agreement until the products of the negotiations are better known and can be assessed in greater detail. But because we recognize the potential value to U.S. business of a broad liberalizing agreement, we want to encourage all efforts to produce a constructive result.

We also recognize the risks of failure. If the negotiations fail, it is unlikely that a similar opportunity will recur for many years. Moreover, failure could create a negative environment that breeds new barriers between the U.S. and Canada, increases the number of costly and unproductive trade disputes, and diminishes prospects for success in the GATT Uruguay Round.

IBM's Interests

Introduction

IBM operates in Canada through its wholly-owned subsidiary, IBM Canada Limited, and through ROLM Canada, a subsidiary of ROLM Corporation, which is in turn a subsidiary of IBM. IBM Canada employs over 12,000 people, and had gross revenues in 1986 of approximately U.S. $2 billion. Exports accounted for $596 million of this, consisting mainly of display terminals, printers, electronic card assemblies, semiconductor substrates and other products of IBM's two Canadian plants. A large share of these exports came to the U.S., and was matched by shipments from the U.S. into Canada of other IBM products.

To be competitive, IBM must be able to move products freely among plants and customers around the world. We have experienced few significant bilateral problems between the U.S. and Canada, whether relating to tariffs, non-tariff barriers or investment restrictions. But there is no guarantee that this situation will endure.

Continuing Trade Issues

IBM would hope to see the existing openness preserved and enhanced in areas of historic interest including tariffs, government procurement, and rules of origin.

The great majority of goods traded between the U.S. and Canada are not subject to duty. However, for many categories to which tariffs are applied Canada maintains somewhat higher rates than the U.S. Tariffs for telecommunications equipment, for example, range from 11.0 to 17.8 percent in Canada, as against U.S. rates from 4.3 to 8.5 percent. IBM hopes to see these tariffs, which mainly affect ROLM equipment imported into Canada, eliminated as soon as possible. Also, although tariffs in data processing equipment are relatively low at 3.9% in both countries, the tariff serves no commercial purpose on either side, and its elimination would benefit both economies.

At both federal and provincial levels, Canada operates various preferences for local suppliers in obtaining public procurement contracts. These range from "buy Canadian" or "buy provincial" laws and regulations to more informal preference practices, and include the use of offsets, requiring a supplier from outside Canada to make purchases within Canada to offset the net export effect of a public contract award. IBM would like to see greater procurement openness achieved in a U.S.-Canada agreement, with application to provincial and state, as well as federal, procurement.

Rules of origin are used for a variety of purposes, ranging from the accurate marking of goods to the assignment of special treatment to articles from certain countries. To be effective a rule of origin should be easily understood, predictable and simple to administer. IBM strongly favors the use of a rule of origin primarily based on changes of customs classification under the new Harmonized System, particularly as the adoption of such a rule by the U.S. and Canada could be an important step towards achieving wider international consensus within GATT on using the same approach.

New Trade Issues

Even more important, in IBM's view, would be for a U.S.-Canada free trade agreement to address the new issues of increasing importance in today's trading system: intellectual property protection, services and investment. These are all issues which must also be tackled to modernize the GATT. The U.S. and Canada already have largely compatible positions on them, and the negotiations offer an opportunity to reach agreements which could stimulate similar negotiations in the GATT.

I. Intellectual Property Protection:

Effective intellectual property protection is crucial for the future of technology-intensive industries like our own. We depend heavily on ideas and innovations to produce a world-class product and keep a keen competitive edge. Software, for example, which represents a large and steadily-increasing proportion of IBM's revenue, is costly to develop but cheap to copy. If piracy is permitted, the commercial incentive to develop and market software on any significant scale will be lost. The same is true for semiconductor chip designs.

IBM strongly supports U.S. efforts to ensure effective international protection of intellectual property by means of agreement within the GATT. We also have supported activities to strengthen and improve protection in the near term. Inclusion of intellectual property protection in a free trade agreement with Canada would not only ensure and reaffirm Canada's current literary works protection of software under its copyright law, but would also establish a helpful precedent for GATT.

II. Services:

Services, including software, maintenance, education, systems engineering, information services and leasing, are an important part of IBM's business, including in Canada. They contribute over 33 percent of our gross worldwide income. In most developed countries, services account for 60% or more of both gross national product and employment. Moreover, increasingly services are marketed internationally, either by being traded across borders (estimated at 20-25 percent of goods trade) or through services firms investing abroad to offer their services in foreign markets.

At the same time barriers to the foreign provision of services appear to be increasing. IBM would like to see such barriers tackled in the GATT, and welcomes the inclusion of services negotiations on the Uruguay Round agenda. The U.S.-Canada talks could set the standard for how to liberalize services commerce.

An agreement should include a general framework of principles applicable to all or most services sectors. Many of these principles would be based on existing trade concepts such as national treatment, balanced concessions, transparency and mechanisms for dispute settlement. In addition, some new principles would be needed to address services-specific issues. Among these are: the need for many services firms to have a local commercial presence or establishment in order to operate; the importance of telecommunications as a distribution and delivery vehicle for information-based services; the value of paring down the greater degree of regulation of services industries in general; and the importance of ensuring fair competition where publicly owned or sanctioned monopolies play a major role, as they do in so many service sectors.

This general framework should be supplemented by agreements covering specific sectors, and spelling out the applicability to them of the general principles. One of these sectors should be information and enhanced telecommunications services, which are growing rapidly and have enormous potential. Their growth could easily be jeopardized either by excessive regulation, or by failing to provide adequate safeguards against unfair competition from telecommunications monopolies. While concerns such as these are less pronounced between the U.S. and Canada, this fact in itself enhances the prospects for a U.S.-Canada agreement on services to set a shining example to the world.

III. Investment:

Many investment restrictions, such as "performance requirements" mandating local content or export levels to be achieved by foreign investors, distort trade. Prime Minister Mulroney's government has taken a more liberal approach to foreign investment. The former Foreign Investment Review Agency has been replaced by Investment Canada, which reviews foreign investments only when they exceed Can$5 million for direct acquisitions or Can$50 million for indirect acquisitions, or when they relate to culturally-sensitive industries.

An agreement on investment between the U.S. and Canada should further reduce the screening and approval requirements of Investment Canada and guard against the proliferation of such requirements in both countries at federal and local levels. It should eliminate measures such as performance requirements that directly affect trade, and establish principles governing investment and its regulation that could form the basis for continued movement towards a more open investment environment, in Canada, the U.S. and around the world. These understandings should include transparency, national treatment, consultation and dispute settlement, and a standstill arrangement.

Other Major Issues

A principal Canadian objective in the negotiations is secure access to U.S. markets. The U.S. seeks agreement on reducing Canadian subsidies at both federal and provincial levels. Several major topics of the negotiations relate to these goals, including the effect of an agreement on existing U.S. trade laws, for example concerning dumping, countervailing duties and import relief, the definition and use of countervailable subsidies, and the dispute settlement procedures to be adopted.

Significant differences have been apparent between the approaches of the two sides on these issues. Their resolution is essential to the conclusion of an agreement. IBM believes that, given the importance of the bilateral U.S.-Canada trade relationship and of the negotiations, it should be possible to bridge these differences in a way that satisfies both sides. A joint trade commission for more effective dispute settlement under the agreement could contribute much to its successful implementation.

Conclusions

A broad free trade agreement between the U.S. and Canada would benefit both economies and many of their industries. We believe it would support IBM's efforts to produce efficiently for success in world markets.

To deliver these benefits, an agreement must be comprehensive: it must address most of the tariff and non-tariff barriers that exist between the two countries; it must address the new issues of intellectual property, services and investment; and its coverage must extend as much as possible to the Canadian provinces and U.S. states, as well as the two federal governments.

IBM believes that such an agreement should be achievable, and that every effort must be made to support our negotiators in working towards it. A comprehensive agreement, that both the U.S. Congress and the Canadian Parliament can approve, will be a historic landmark in North American trade and a major spur to efforts to improve trade and investment openness all around the world.

The Congress has a vital role to play in ensuring that an agreement is reached which realizes these goals, and maximizes the benefits to the overall U.S. national interest. IBM welcomes this opportunity to contribute its views to assist in this undertaking.

August 1987

STATEMENT OF
DOMENIC DIPAOLA
GENERAL PRESIDENT

INTERNATIONAL LEATHER, GOODS, PLASTICS, AND NOVELTY WORKERS UNION, AFL-CIO

In Opposition to

PROPOSED U.S.-CANADA FREE-TRADE AREA AGREEMENT

The International Leather Goods, Plastics, and Novelty Workers' Union, AFL-CIO is headquartered in New York City. Some 12,000 of our members live and work in the New York-New Jersey Metropolitan area. Our members make luggage, handbags and personal leather goods.

On behalf of the members of my union, I am submitting this statement to the Committee in opposition to the proposed U.S.-Canada Free Trade Arrangement (FTA). As was the case with Israel, we oppose any arrangement that would result in the elimination of duties on imports of products that our members make here in United States. Duties provide about the only insulation that our domestically-made products have against imports.

Our members have lost thousands of jobs over the past few years because of imports. These are not high paying jobs, nor are they held by people who are easily re-employed. Our members are minorities, women and immigrants. With their skills and hampered by where they live -- most often the inner city -- they do not have many job opportunities once they lose their jobs to imports. We are working to preserve the jobs of our members, but the task is next to impossible when foreign imports are flooding our markets.

To eliminate tariffs on leather products -- no matter what country is involved or what the reasons may be -- when imports in the leather products sector are already so high is the wrong approach. Already 85 percent of the domestic handbag market is gone to imports, and 62 percent of the luggage market and 42 percent of the personal leather goods market are held by imports. A U.S.-Canada free trade arrangement that would have the result of eliminating duties on leather-related products would simply be an invitation to more imports which translates into more jobs lost to U.S. workers.

It was unfortunate that Congress agreed to eliminate duties on Israeli products. We hope you will not compound the error by including Canada as well. We expect that many other countries will similarly seek duty-free arrangements with the United States, for example, there have been discussions about Mexico and the ASEAN countries of the Philippines, Brunei, Malaysia, Thailand, Singapore and Indonesia. While duty-free imports from Canada and Israel certainly have the capacity to hurt us, duty-free imports from these other countries would bury us.

The Canadian proposal for a dispute settlement board to handle or settle trade complaints bothers us a great deal. Such a mechanism will result in either an inordinate delay in legitimate trade relief being granted, a scaling back of such relief, or no relief at all. It is an extremely bad precedent, and we hope the Finance Committee and Congress will strongly oppose it.

In short, we hope that the Finance Committee will consider the ramifications of these duty-free arrangements on American men and women who hold jobs in these industries. Tariffs on imports of leather products do make a difference. To reduce or eliminate them means more jobs lost for our members. It's as simple as that.

INTERNATIONAL TRADE COUNCIL
750 Thirteenth Street S.E., Washington, D.C. 20003 USA
Telephone (202) 547-1727

STATEMENT OF DR. PETER NELSEN, PRESIDENT

Executive Summary

The United States may face a trade war with Canada if the current free trade negotiations fail. A series of protectionist measures and countermeasures have created a cycle of "tit for tat" protectionism which can not be broken by "getting tough." The use of subsidies, quotas and countervailing duties results in higher taxes for all to obtain benefits for a few, increased prices for consumers, fewer jobs for workers and diversion of investment capital to inefficient producers.

A free trade agreement with Canada could break this cycle of protectionism, increase U.S. and Canadian gross national product, create 500,000 to 750,000 jobs, and operate as an incentive for other countries to negotiate reduced trade barriers with the U.S. or face increased competition from those countries which do.

It is essential that the free trade agreement contain an economic impact statement to ensure that we do not favor a single industry at the expense of the overall economy. The free trade agreement should include agriculture, services, investment and intellectual property rights to serve as a model for the ongoing General Agreement on Tariffs and Trade (GATT) negotiations. Finally, the free trade agreement should include a commitment to phase out all public subsidies and dumping activities by the year 2000. ITC proposes that a moratorium on countervailing duties and quotas be declared. The International Trade Commission and its Canadian counterpart, the Canadian Import Tribunal, should be phased out and replaced with a joint panel to resolve unfair trading practices disputes. The U.S. and Canada would have equal membership on the panel with the deciding vote held by a mutually acceptable third country.

Testimony on U.S.--Canada Free Trade Negotiations

Mr. Chairman and Members of the Senate Committee on Finance, thank you for the opportunity to provide written testimony on the U.S.-Canada free trade negotiations. I am Dr. Peter T. Nelsen, President of the International Trade Council (ITC).

The ITC is a trade association representing large, medium and small businesses from the entire spectrum of exporting industries. Dedicated to defending and expanding free trade, overseas development and private sector investment, ITC is the original sponsor of the U.S. International Trade Center (USIT) and the International Development Institute (IDI). USIT is a permanent, year-round trade center designed to assist small, medium and large companies in entering the export market. USIT will provide 6,000 exhibitors with access to overseas buyers and joint shipping, financing, insurance and marketing services. In addition, IDI provides education, training, and technical assistance to U.S. producers who want to enter the world market or expand their exports.

The United States and Canada have historically been great friends and neighbors. We share the world's longest undefended border and the largest trading relationship. Millions of Americans and Canadians freely cross the border to shop and visit each year. Our defense ties with Canada are more extensive and intimate than with any other country. We work together through the North Atlantic Treaty Organization (NATO), the North American Aerospace Defense Command (NORAD), and the Permanent Joint Board on Defense.

Nonetheless, despite our very close friendship, a trade war with Canada is a distinct possibility if the current free trade negotiations fail. We are already in a trade skirmish.

In March 1985, Canada reinstated a trade provision that enabled foreign manufacturers to receive remissions of Canadian duties on imports from their home countries based on their exports to the United States. U.S. automobile manufacturers complain that this constitutes an export subsidy which undermines the U.S.--Canada auto pact. In early 1986, under pressure from American timber companies, the U.S. imposed a 35 percent tariff on Canadian cedar shakes and shingles. Canada retaliated by increasing its tariffs on computer parts, books and a variety of other products. In October 1986, the U.S. Commerce Department determined that the softwood timber pricing policies of Canadian provinces constituted an export subsidy. To avoid a threatened countervailing duty, Canada imposed a 15 percent export tax on softwood lumber in December 1986.

Canada, in turn, has begun flexing its own protectionist muscles. In March 1987, the Canadian government imposed a 67 percent countervailing duty on U.S. corn imports to counter American agricultural subsidies. That same month, Canada proposed to bar foreign firms from distributing films in Canada for which they held the U.S. distribution rights but not the worldwide rights. This proposal would reduce U.S. movie sales in Canada by about 20 percent.

America's protectionist impulse has been fueled by a myth. This myth claims that foreign imports are stealing American jobs, particularly in manufacturing. That just is not true. The American economy created 8.4 million new jobs from 1978 to 1985—far more than Japan and Western Europe combined. In addition, U.S. manufacturing employment has held steady at around 19 million since 1970, while total employment of production workers rose from 47 million in 1975 to 62 million in July 1985.

The cost of a trade war will be higher prices for American consumers and lost jobs for U.S. workers. The cedar shake and shingle tariff cost new home buyers an extra $800 according to the National Association of Home Builders. In the next seven years, 120,000 families are projected to be priced out of the housing market by the softwood lumber tax. Those who can still afford a new home will pay an additional $227 million annually. American jobs are lost when Canada seeks to protect its industries with stiff tariffs and limits American companies' access to its markets.

A free trade agreement could break this cycle of "tit for tat" protectionism and defuse the looming trade war. A free trade agreement would also yield several additional benefits. Canadian tariffs are much higher than ours on the average. Thus, phasing them out would benefit American exporters. According to the Office of the United States Trade Representative, if Canada cut its tariff rates to the level of other industrialized countries, American exporters could increase their annual sales by $500 million annually. Elimination of tariffs would also modestly lower the cost of living for consumers. In return, Canada would receive secure access to the American market.

It has been estimated that a free trade agreement with Canada would raise the U.S. gross national product by $12-17 billion and create 500,000 to 750,000 jobs. Because Canada's economy is much more dependent on exports, it would receive proportionately an even greater increase in its gross national product. A free trade agreement would lower the production costs of U.S. and Canadian companies and enable them to become more competitive both domestically against foreign manufacturers and overseas in third markets.

A U.S.-Canada free trade agreement could also substantially promote the further negotiation and establishment of a North American Free Trade Area. This proposal, introduced by Senator Phil Gramm and Congressman Jack Kemp, calls for a North American Free trade Area that would include the U.S., Canada, Mexico, and the Caribbean Basin Initiative participants. This agreement would be reciprocal and provide for mutual reductions in trade barriers to promote trade, economic growth, and employment throughout North America. The Gramm-Kemp approach would provide strong incentives for other countries to negotiate reductions in trade barriers with the U.S. or face increased competition from those countries with whom free trade agreements exist.

In order to realize these important benefits, we must not yield to the temptation to dilute the free trade agreement with single sector protectionism. Protection of a single industry always comes at the expense of the overall economy. If the United States had imposed a 15 percent import quota on steel in 1984, as the steel industry sought, 26,000 steelworkers jobs could have been saved--but at the cost of 93,000 jobs in the steel using industries, according to a recent study by the Center for the Study of American Business. Increased prices for steel would have raised the production costs of American automobiles and durable goods thus making these manufacturers less competitive. Moreover, the American consumer would pay much more in the form of higher prices for these goods than the total wages earned in the jobs that would have been saved. The cost-benefit ratio in the case of footwear quota was 9:1; in the case of steel and autos, 4:1.

Accordingly, ITC recommends that the free trade agreement (and all other trade legislation) contain a statement detailing the economic impact on and costs to U.S. consumers as outlined in the Gramm-Kemp proposals for a North American Free Trade Area.

Most importantly, a free trade agreement should include agriculture, services, investment and intellectual property rights to serve as a model for the more difficult and important ongoing General Agreement on Tariffs and Trade (GATT) negotiations. America blocked the formation of the International Trade Organization in the 1940's and effectively fought to remove agriculture from GATT rules in the 1950's. As a result, U.S. service companies and multinationals now face a "hodge podge" of rules governing trade in services and investment which vary from country to country. American farmers have lost tremendous markets to subsidized European agriculture due to the lack of GATT restrictions.

The free trade agreement should include a commitment to end the use of public subsidies and dumping in all sectors of the economy by the year 2000. This is similiar to the U.S. approach on agricultural policy recently set forth in the ongoing GATT negotiations. Subsidies and dumping encourage the use of countervailing duties and quotas by countries with competing industries. The net effect of this is the taxing of the many for the benefit of the few, increasing the cost of goods to consumers, reducing the creation of jobs, and diverting the flow of investment to inefficient producers.

The International Trade Council proposes that a moratorium on countervailing duties and quotas be declared. The International Trade

Commission and its counterpart, the Canadian Import Tribunal, should be phased out and replaced with a joint panel to resolve unfair trading practices disputes. The U.S. and Canada would have equal membership on the panel with the deciding vote held by a mutually acceptable third country.

If we fail to establish a bilateral or multilateral mechanism to resolve these disputes, American businesses and farmers could be further burdened by unilateral retaliation by Canada and other countries. Using the U.S. argument in the Canadian softwood lumber case that discretionary management of public resources constitutes a subsidy, the use of state industrial development bonds, government-financed irrigation projects, pollution control easements, or antitrust exemptions by American exporters could justify a foreign countervailing duty.

The status quo in trade with Canada and the rest of the world cannot be maintained, nor can we solve the problems through more quotas, stiffer tariffs or higher barriers. Retaliation breeds retaliation and American consumers and workers pay the price when the government "gets tough." The ongoing free trade negotiations with Canada offer a great opportunity to reverse this vicious cycle, with reductions in trade barriers setting a precedent for long-term free trade and enhancing worldwide economic growth and prosperity.

The International Trade Council supports the negotiating objectives of the Administration as announced by the Office of the United States Trade Representative. We urge the United States Congress to do likewise.

IUE
INTERNATIONAL UNION OF ELECTRONIC, ELECTRICAL, TECHNICAL, SALARIED AND MACHINE WORKERS, AFL-CIO
WILLIAM H BYWATER *President*
EDWARD FIRE *Secretary Treasurer*

August 13, 1987

Senator Lloyd Bentsen
Committee on Finance
United States Senate
205 Dirksen Building
Washington, DC 20510

Dear Senator Bentsen:

Thank you for this opportunity to comment on the ongoing U.S.-Canada Free Trade Area negotiations. I believe that these negotiations may well result in very serious consequences both for our nation and for Canada.

The suggestion that the Canadian market should be more open to American goods is contrary to the fact that Canada received 69.8% of its 1986 imports from the U.S. On the other hand, 77.7% of Canada's exports went to the U.S. market. If anything, Canada must diversify its own trade in order to reduce its dependence on a single trading partner.

The deal which is under consideration would reduce trade barriers in return for increased direct investment across the border. In theory, this will widen the market for Canadian products in the United States and increase the amount of U.S. investment in economically depressed areas of Canada. In fact, experience has shown that U.S. investment will occur in parts of Canada where development is already taking place and that that investment will eventually transfer work from U.S. plants to Canadian ones, at the expense of American workers' jobs. Other workers are likely to suffer injury to wages and benefits from Canadian competition.

Many Canadians have grave fears about the possible results of a free trade agreement with the United States. Despite its great size and mineral wealth, Canada suffers from wide disparities in income among its regions and provinces. This is due, in part, to the concentration of industrial development in Ontario, with its proximity to the American market. These Canadians expect that an unrestrained trade relationship will result in the total domination of Canadian industry by stronger American competition in the short run, and by American capital in the end.

Historically, Canada's economic policies have sought to ease

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the hardships caused by the unrestrained power and mobility of capital. Labor laws support and enforce the rights of workers to organize and bargain collectively. Industrial policies have tried to target economic development, where possible, to spread earning power and wealth instead of simply accepting its concentration. When industrial change has been unavoidable, Canada's active labor market policies have tried to assist dislocated workers in their transitions, rather than leave them, as many American workers have been left, to become poor, angry and disillusioned. National health programs recognize the need to provide high quality care to all citizens, regardless of circumstances. Agricultural marketing boards function to rationalize an unpredictable farm economy, rather than to extend the dominance of agribusiness.

To some Americans, these policies subsidize Canadian industry. Adherents to free trade and free enterprise fault Canada for taking an activist role in its economy. It is presumed that a government's role should be to exclude itself as much as possible from the economic sphere. Some parts of the negotiations go so far as to suggest constraints on the role of government in future economic activity. This attitude has been well received among Canadians whose profits will be greater with the American model than with a more humane and rational alternative.

Let us be clear about the real beneficiaries of these talks. Each side of the table is profoundly influenced by the economic goals and perspectives of the multinational corporations which operate within both nations. Each U.S.-based multinational has a Canadian subsidiary. For members of our union, employed by General Electric, General Motors and others, this has resulted in competition between groups of workers under different flags but the same employer.

The advantages of a free trade area will accrue most readily to these corporate giants whose power is not limited by national boundaries. Legislating Reaganomics for Canada will neither serve the interests of the American people nor the Canadians who fear the loss of their national identity in the process.

Very truly yours,

William H. Bywater

William H. Bywater,
International President

WHB:rpp

STATEMENT OF
INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)
TO THE COMMITTEE ON FINANCE
UNITED STATES SENATE
ON
U.S.-CANADA TRADE NEGOTIATIONS

The UAW is pleased to present its views on the trade negotiations between Canada and the U.S. The success of trade negotiations with Canada can only be judged by the resulting impact on U.S. employment, our industrial base, and the avoidance of additional economic dislocation.

It is impossible to discuss U.S.-Canada trade without addressing trade in auto products. This single industry is responsible for one third of all trade between our two nations. In 1986, the overall U.S. deficit swelled to $23 billion and the auto deficit to $8.5 billion. Two Canadian programs create strong incentives for manufacturers to shift North American production capacity to Canada: the Auto Pact, and a newly reinstituted duty remission scheme. The arrival of new auto producers in North America and the rapid growth of non-North American parts sourcing raises questions about the effect of the Auto Pact on the location of new production facilities. Because of the worldwide duty free import privileges available to Canadian producers, the Canadian restriction of duty free importing from the U.S. to producers that reach a target level of Canadian content and the lax requirements for duty-free entry into the U.S. from Canada, new entrants wishing to sell cars in Canada as well as the U.S. have good reasons for locating a disproportionate share of their North American investment in Canada. The one-sided Canadian "safeguards" also provide an incentive for these assemblers to encourage parts makers to supply them from Canadian plants, helping them meet the Canadian Value Added requirement of the Auto Pact.

This problem is exacerbated by Canada's duty-remission program It allows firms which do not meet the terms of the Auto Pact to receive a remission of the duties they owe on imports of vehicles in proportion to the exports of original equipment auto parts for which that producer is responsible. The Canadian duty-remission scheme sets up an incentive for firms to find sources for auto parts in Canada rather than the U.S. This program should be eliminated as part of any agreement reached.

To prevent the recent changes in the industry from causing a permanent bias in favor of Canadian over U.S. production, several improvements should be negotiated. First, like Canada, the U.S. should require a minimum production-to-sales ratio to qualify for duty free treatment of imports entering the U.S. Further, the U.S. should require that vehicles and original equipment parts contain at least 75 percent North American value to receive duty-free treatment under the Auto Pact. Tariffs on replacement parts should be maintained. Only parts trade covered by the Auto Pact should be exempt from duties. The small U.S. duty which remains on parts is just barely enough to convince many auto parts producers to keep their U.S. plants operating. Finally, a new provision should be added to the agreement to require that negotiations between the two governments will be initiated automatically whenever auto trade imbalance reaches a certain level for any calendar year. The negotiations would determine the causes of the imbalance and propose remedial steps. If the imbalance is not reached below the target level within the next year, the agreement could be suspended until the target level is reached.

The imbalance in U.S.-Canada trade, and especially the auto trade imbalance, must be addressed in the talks if American employment and production are to increase as a result of reaching an agreement.

The UAW is pleased to present its views on the trade negotiations between Canada and the U.S. The tremendous volume of trade between our two countries, and the worrisome U.S. deficit in that trade in recent years, indicate the significance that the talks hold for the nation. Any agreement reached must clearly demonstrate that it will reverse the large deficits in our bilateral trade with Canada and establish a firm basis for balanced trade.

The reason for focusing on the U.S.-Canada trade balance is simple — the recent large deficits have cost American workers their jobs. The most serious deterioration in our trade performance has been in manufactured goods. The success of trade negotiations with Canada can only be judged by the resulting impact on U.S. employment, our industrial base, and the avoidance of additional economic dislocation.

It is impossible to discuss U.S.-Canada trade without addressing trade in auto products. This single industry is responsible for one third of all trade between our two nations; it accounts for one third of U.S. exports to Canada, one third of imports from Canada, and also one third of the resulting U.S. trade deficit. In 1980, the U.S. ran a $6.6 billion trade deficit with Canada, but a small surplus in auto industry trade. By 1984, the overall deficit had jumped to $20.4 billion and the auto deficit was over $7 billion, more than a third of the total. This pattern continued in 1985 and 1986, as the overall official U.S. deficit swelled to $23 billion and the auto deficit to $8.5 billion. There are revised figures that put the overall U.S. deficit with Canada much lower, but the U.S. did not consider these revisions official until this month and still has not published industry-specific trade figures based on the revised data.

During this same period the U.S. has run a deficit in automotive vehicle trade with Canada while running a surplus in parts trade. The deficit in vehicle trade has grown tremendously, however, while the surplus in parts trade, which was $1.6 billion in 1980 turned into deficit in 1986, reflecting a shift in parts production to Canada and elsewhere.

At least two Canadian programs create strong incentives for manufacturers to shift North American production capacity to Canada: the Auto Pact, and a newly reinstituted duty remission scheme. It is our belief that both programs deserve serious attention in any discussion of U.S. Canadian trade relations because of the effect they are having on a burgeoning trade deficit and because of the enormous employment implications.

The Auto Pact

Since most auto trade is subject to the Agreement Concerning Automotive Products Between the Government of the United States and the Government of Canada (Auto Pact), signed in 1965, attempts to bring about balance in auto trade must confront the status of the Auto Pact. The purpose of the Auto Pact, when negotiated in 1965, was to promote the integration and rationalization of the U.S. and Canadian operations of the major auto producers. In order to create a single North American market the Pact established criteria which, if met, allowed duty free shipment of vehicles and original equipment (OE) parts between the two countries. At that time, sales in the U.S. and Canada by non-North American producers were relatively small and, therefore, of no concern to the negotiators.

Because of Canadian fears that the "rationalization" of production could result in predominantly U.S. production serving the Canadian market, safeguards were incorporated in the Canadian rules governing the Pact. Automotive products can enter Canada duty free, only if they are imported by auto companies which meet a Canadian Value Added (CVA) requirement and produce vehicles in Canada in proportion to their sales in Canada (the precise production-to-sales ratio varies by company and depends on the proportion in the year before the Auto Pact began; in most cases, a company must produce in Canada at least as many cars as it sells there.) When these conditions are met, producers may import vehicles and parts duty free into Canada not only from the U.S. but from anywhere in the world.

In contrast to Canada, U.S. implementation of the Pact allows duty free treatment for imports from Canada alone; covered products must contain at least 50 percent North American (U.S. and Canadian) value added. Under the Auto Pact individuals can purchase cars in Canada and bring them into the U.S. without paying duty, and any auto producer may bring in OE parts, as well as vehicles duty free.

The intended goals of the Auto Pact were achieved quickly. Canada eliminated its duty-remission program and production by the North American auto companies became much more integrated across the U.S.-Canadian border. Canada produced 7.1 percent of all North American vehicles in 1965, but by 1970, its share had grown to 12.6 percent. The Canadian share of production in 1986 was 14.2 percent. Canadian parts production has also increased as a share of combined U.S.-Canada output from 7 percent in 1972 to 11 percent in 1986. But the Canadian share of total North American-produced vehicle sales has grown from 7.1 percent to only 8.7 percent between 1965 and 1986. The pattern in the distribution of North American auto employment also favored Canada. Canada's share, which was about 8 percent in 1965, was approximately 13 percent of the North American total by 1985. While U.S. auto employment is currently about 27 percent below the 1978 peak, Canadian employment is above the 1978 level. When the auto market was weakest, from 1980 through 1983, Canada's share of employment increased each year.

While there have been only muted complaints about the Pact's operation over the past 20 years, several interesting comments and proposals appeared in both the original Finance Committee report on the legislation which made the Pact effective in the U.S., and in a 10-year review of the Auto Pact by the International Trade Commission (ITC) in 1976.

The ITC heard the views of diverse interests in preparing its report. Many suggestions for improvements in the Auto Pact were made in the 1976 hearings. The UAW proposed raising the minimum North American value added for duty free entry of Canadian products into the U.S. to 75 percent from 50 percent. This was meant to restrict the potential or the use of non-North American imported parts in vehicles receiving duty free access to the U.S. market. In the decade after the Auto Pact began, foreign auto manufacturers were already developing growing penetration of the U.S. market. This raised the possibility that foreign manufacturers would exploit the benefits of the Auto Pact by assembling vehicles in Canada using some Canadian parts but importing the balance from their home operations. The UAW proposal would have targeted the benefits of the Auto Pact more effectively to high North American content producers.

Despite this and other proposals, the Auto Pact was not amended. Another ten years have passed and, for several reasons, it has become even more important to seriously examine the agreement again. The fairness of the Auto Pact as a regulator of auto trade between the U.S. and Canada must be called into question in light of the disproportionate growth of production and employment in Canada relative to the U.S. Moreover, the arrival of new auto producers in North America and the rapid growth of non-North American parts sourcing raises with renewed force the questions that the UAW raised in 1976. The location of the new producers in North America has also rekindled concerns about Canada's new duty remission scheme that was originally eliminated by the Auto Pact.

The biggest Auto Pact-related problem for U.S. auto workers is disproportionate assembly by North American producers in Canada. While Canada's production-to-sales ratio safeguard requires only a one-to-one ratio, the CVA safeguard effectively creates an incentive to produce at much higher ratios. Auto Pact producers are given credit for CVA based on their total production in Canada as a percent of Canadian sales. So if 200,000 vehicles are produced with 30 percent CVA, but only 100,000 units are sold in Canada and the remainder exported, the manufacturer meets the 60 percent CVA requirement. This explains why North American firms have so extravagantly exceeded the production-to-sales ratios. During the 1970's, the ratio of Canadian production to sales for cars bounced between 130 and 149 percent; from 1982 to 1985, the ratio jumped to a range of 173 to 202 percent. For commercial vehicles, the ratios jumped from 98 to 155 percent in the 1970's to 192 to 272 between 1982 and 1985.

The second problem with the Auto Pact is its effect on investment by new producers in North America. The original goal of the Auto Pact was to force the "rationalization" of existing facilities in Canada and the U.S. to reduce total costs. The safeguards were meant to keep at least the existing share of total North American auto industry production in Canada.. The new producers, mainly Japanese, are now starting to invest heavily in North American assembly capacity. For these new entrants, the one-sided safeguards under the Auto Pact create an incentive to invest disproportionately in Canada. Because of the worldwide duty free import privileges available to Canadian producers, the Canadian restriction of duty free importing from the U.S. to producers that reach a target level of Canadian content and the lax requirements for duty-free entry into the U.S. from Canada, new entrants wishing to sell cars in Canada as well as the U.S. have good reasons for locating a disproportionate share of their North American investment in Canada.

In addition to promoting investment in Canada by auto assemblers, the one-sided safeguards provide an incentive for these assemblers to encourage parts makers to supply them from Canadian plants. This helps them meet the Canadian Value Added requirement of the Auto Pact.

Companies originally covered by the Auto Pact, because of the Canadian Value Added restrictions, have integrated their U.S. and Canadian facilities. They exceed the 50 percent North American Value Added requirement for duty free entry into the U.S. because of their extensive use of U.S. produced parts. The new entrants to the North American market, however, add most of the non-Canadian value of their Canadian output from their home country plants and purchase very little from other North American operations. The Auto Pact allows them to export from Canada to the U.S. and pay no duties despite their minimal sourcing of parts in the U.S. for assembly into vehicles produced in Canada.

Our experience to date with the Japanese auto assembly plants in the U.S. has convinced us of the dangers presented to auto employment and parts production by these operations. The "transplant" facilities purchase domestically no more than 30 percent of the value of parts incorporated into their U.S.-assembled vehicles.

The Canadian safeguards will lead to even lower levels of North American content in transplant vehicles. Transplant firms can reach the 60 percent CVA, and thereby, achieve Auto Pact status in Canada, by producing many more vehicles in Canada than they sell, but with a relatively small proportion of CVA in each one. The production above the Canadian sales level will be exported to the U.S. This seems to be what a number of these producers plan to do. The addition of such assembly plants in Canada is likely to result in the loss of thousands of U.S. jobs in the parts and supplier industries.

Duty Remission Program

This problem is exacerbated by Canada's duty-remission program, a second instrument to influence the new North American producers to increase the value of Canadian auto production. The program, as currently operating, allows firms which do not meet the terms of the Auto Pact to receive a remission of the duties they owe on imports of vehicles in proportion to the exports of original equipment auto parts for which that producer is responsible. For example, if Honda of Canada arranges for a Canadian parts producer to ship OE parts to its U.S. plant, Honda can deduct the value of those parts from its total of imports into Canada; the amount of duties owed to the Canadian government is, thereby, reduced. Foreign auto companies with no production facilities at all in Canada are also eligible for such duty remission. Several of these firms now have U.S. assembly plants and plan to source a growing volume of parts locally. The Canadian duty-remission scheme sets up an incentive for these firms to find sources of these parts in Canada rather than the U.S.

The incentives for disproportionate Canadian investment are of particular concern because of the growing deficit in U.S.-Canadian trade. At a time of auto industry employment problems in the U.S., the trade deficit with Canada is a problem for the UAW. In addition, the new investments in the North American auto industry, given the maturity of the market and the plans of foreign firms to continue to export increasing numbers of vehicles, are creating excess capacity and the likelihood of plant closings and layoffs. This is true for both the final assembly and parts production segments of the industry. If a disproportionate share of new investment is made in Canada, then a disproportionate share of the job losses will be in the U.S. This would not be a desirable result for American auto workers or their communities. It would also add a further strain to the already lopsided U.S. trade balance with Canada.

Japanese and Korean auto producers alone or with North American partners, plan to build nearly 500,000 units of capacity in Canada over the next few years. Currently these firms sell about 200,000 units a year in Canada. Obviously they plan to export most of their output to the U.S. The impact on employment in the U.S. auto industry could be quite harmful.

Remedies

For all of these reasons, we believe that changes in the U.S.-Canada Auto Pact are needed to restore a balance in its impact on the two countries. To prevent the recent changes in the industry from causing a permanent bias in favor of Canadian over U.S. production, several improvements should be negotiated. First, like Canada, the U.S. should require a minimum production-to-sales ratio for firms to qualify under the Auto Pact for duty free treatment of imports entering the U.S.

Firms that were covered by the Auto Pact when it was first negotiated because they produced vehicles in both the U.S. and Canada in 1964 should continue to receive duty free treatment as long as they make progress toward meeting the new qualifications and fully comply within a reasonable period of time. All other firms must fully comply before receiving the exemption from duties allowed under the Pact. Any joint venture operations between a North American-based firm and a foreign-based auto producer should be considered as separate from either parent firm for the purposes of this provision. If GM-Suzuki, for example, makes no cars in the U.S., it will not meet the U.S. production requirement, so it would not be eligible to ship cars into the U.S. from Canada duty free.

Further, the U.S. should require that vehicles and original equipment parts must contain at least 75 percent North American value to receive the benefits of duty-free treatment under the Auto Pact. We believe that the growth in outsourcing by North American producers and the influx of foreign firms setting up assembly plants makes this change we proposed ten years ago more important than ever. The experience we have gained from dealing with the "transplant" operations in the U.S. has shown that only a minimal number of domestically sourced parts can be transformed into 50 percent of the final product's value by the addition of assembly labor, management compensation, overhead and profits.

Tariffs on replacement parts should be maintained. Only parts trade covered by the Auto Pact should be exempt from duties. Since many parts plants make both original equipment and replacement parts, the Canadian production and value added requirements, when combined with the renewed effort to provide duty remission, set up strong incentives for North American and overseas producers to establish new parts plants in Canada. These new Canadian plants will intensify the already tough competition for sales of replacement parts in both Canada and the U.S. The small U.S. duty which remains on parts is just barely enough to convince many auto parts producers to keep their U.S. plants operating.

Finally, a new provision should be added to the agreement to require that negotiations between the two governments will be initiated automatically whenever the overall auto trade imbalance reaches a certain level or the imbalance in any product group (cars; commercial vehicles; parts) reaches a minimum level for any calendar year. The purpose of the negotiations would be to determine the causes of the imbalance and propose remedial steps. If the imbalance is not reached below the target level within the next year, the agreement could be suspended until the target level is reached. The current U.S. auto trade deficit with Canada is too large to be ignored. The Pact can only keep the support of U.S auto workers if there is relative balance in the distribution of the benefits. The trade figures show that the needed balance is not present, nor is there any prospect of greater equity being reestablished soon. Conducting "business as usual" with respect to the Auto Pact under such circumstances is not justified; it is appropriate to take corrective action until trade balance is restored. The Auto Pact has provided a stable framework for auto trade for 20 years and, with the addition of U.S. safeguards and increased North American content, it can continue to be an instrument for fair auto trade between the U.S. and Canada. The removal of Canada's duty remission program must also be achieved if we are to restore balance in U.S.-Canada auto trade.

Thank you for providing this opportunity for us to present our views on these important negotiations to the Committee. The imbalance in U.S.-Canada trade, and especially the auto trade imbalance, must be addressed in the talks if American employment and production are to increase as a result of reaching an agreement.

U.S./Canadian Automotive Jobs
(thousands)

	U.S.	Canada	Canadian Share	Total
1964	752.9	70.5	8.6%	823.4
1965	842.7	82.8	8.9	925.5
1966	861.6	87.3	9.2	948.9
1967	815.8	85.7	9.5	901.5
1968	873.7	86.8	9.0	960.5
1969	911.4	95.0	9.4	1,006.4
1970	799.0	86.0	9.7	885.0
1971	848.5	96.7	10.2	945.2
1972	874.8	102.7	10.5	977.5
1973	976.5	114.6	10.5	1,091.1
1974	907.7	113.9	11.1	1,021.6
1975	792.4	103.8	11.6	896.2
1976	881.0	112.4	11.3	993.4
1977	947.3	118.3	11.1	1,065.6
1978	1,004.9	124.9	11.1	1,129.8
1979	990.4	123.8	11.1	1,114.2
1980	788.8	104.1	11.7	892.9
1981	788.7	107.4	12.0	896.1
1982	699.3	98.7	12.4	798.0
1983	753.7	115.6	13.3	869.3
1984	861.7	123.8	12.6	985.5
1985	876.4	135.0	13.3%	1,011.4

SOURCE: U.S. Bureau of Labor Statistics, Employment & Earnings; Statistics Canada

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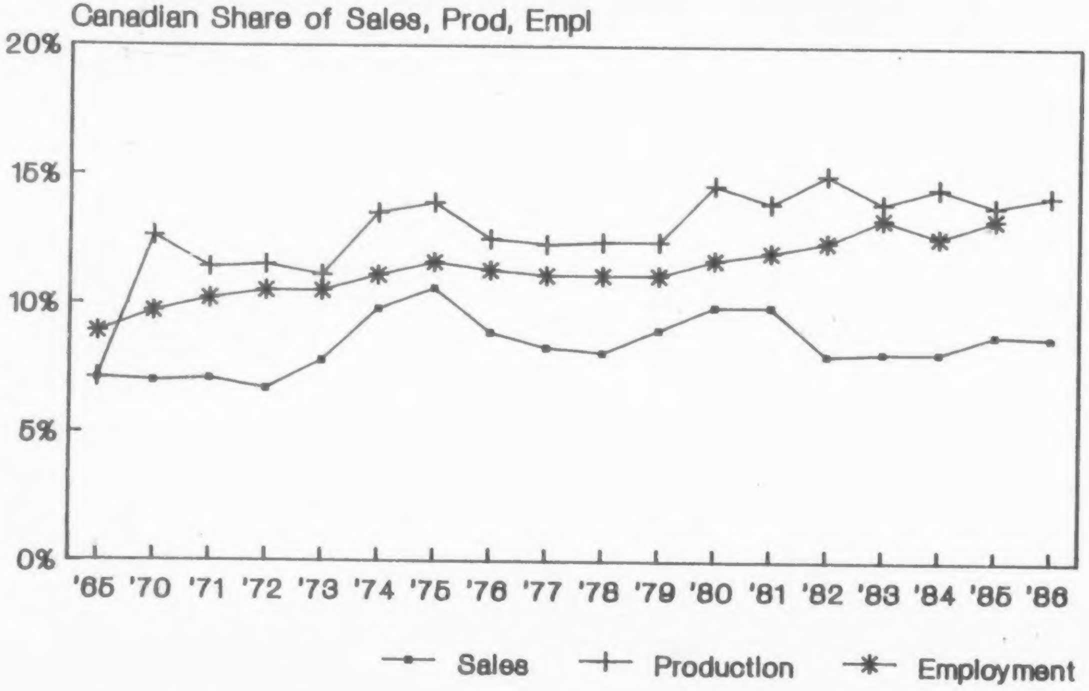
Canadian Share of N. American
Sales, Production & Employment



SOURCE: Ward's Automotive Reports, U.S. Bureau of Labor Statistics, Statistics Canada

NORTH AMERICAN TRANSPLANT AUTO & LIGHT TRUCK PRODUCTION CAPACITY
(thousands)

	1984	1985	1986	1987	1988	1989	1990		Comments
UNITED STATES									
Honda									
Marysville, O. (1982)	133	145	240	300	360	360	360	o	Compact Accord (1982) and subcompact Civic (1987); employs 2,000; total investment: $637 million, including stamping, engine and plastic plants in 1986.
Acura* (1989)	---	---	---	---	---	(120)	(120)	o	Acura is an upscale division for Honda which began importing the Integra (sport) and Legend (intermediate) to the U.S. in 1986 and will consider manufacture (1989) of Integra if sales are successful.
NUMMI (GM/Toyota)									
Fremont, CA. (1984)	---	35	203	250	250	250	250	o	Subcompact Nova; (to build 50,000 Toyota FX (sport) for Toyota (1987)); employs 3,000; total investment $400 million.
Nissan									
Smyrna, TN. (1983)	95	150	173	240	240	240	240	o	Subcompact Sentra (1985), and small pickup (1983); employs 2,900; total investment: $745 million; engines, transmissions from Mexico.
Mazda (Ford/Mazda)									
Flat Rock, MI (1987)	---	---	---	50	150	300	300	o	Compact '626' (1987) and RX-7 (1990); 150-180,000 units to be sold by Ford; to employ 3,500; total investment $450 million.
Diamond Star (Chrysler/MMC)									
Bloomington-Normal, IL. (1988)	---	---	---	---	120	240	240	o	To produce subcompact Colt; to employ 2,500; total investment: $500 million.
Toyota									
Georgetown, KY. (1988)	---	---	---	---	100	200	200	o	Compact Camry (1988); to employ 3,000; total investment: $800 million, includes stamping.
Fuji-Isuzu									
Lafayette, IN (1989)	---	---	---	---	---	60	120	o	Fuji (Subaru) 4wd Leone car and Isuzu Pickups; output to be split between the two firms; total investment, $500 million; may increase capacity to 240,000 by 1990 with an additional $400 million investment.
Ford-Nissan	---	---	---	---	---	---	200	•	MPV jointly designed by Ford & Nissan to be produced at Smyrna or newly constructed plant in U.S. or Canada (based on Prairie).
	228	330	616	840	1,220	1,650	1,910		
CANADA									
Hyundai									
Bromont, Que. (1988)	---	---	---	---	---	40	80	o	Hyundai plans to assemble 100,000 (at capacity) 2-3L V-6 engine vehicle and seek to operate under the Auto Pact; will employ 1,200; total investment: $325 million (Canadian).
Honda									
Alliston, O. (1988)	---	---	---	30	80	80	80	o	Compact Accord (1987) and subcompact Civic (1989); expect to export 20-40,000 to U.S.; total investment: $250 million; stamping from Ohio; employ 700; not seeking Auto Pact status.
Toyota									
Cambridge, Ontario (1988)	---	---	---	---	50	100	100	o	Subcompact Corolla; to employ 1,000; total investment: $400 million, includes assembly, stamping, welding, painting.
Cami Automotive (GM-Suzuki)									
Ingersoll, Ontario (1988)	---	---	---	---	---	80	200	o	GM-Suzuki to assemble 80,000 Samurais (1989, over half for GM); and 120,000 Sprints (1990, most for GM); seek Auto Pact status; total investment: $358 million; includes stamping; employ 2,000.
				30	130	300	460 (19%)		
TOTAL NORTH AMERICAN	228	330	616	870	1,350	1,950	2,370		

* Not confirmed, not included in totals.

Prepared by UAW Research Department; annual capacity estimates based on most current trade press announcements, subject to constant revision.
opeiu494:8/11/87:DF

POSITION OF J. I. CASE COMPANY
ON THE
UNITED STATES - CANADA FREE TRADE AREA NEGOTIATIONS

I. SUMMARY OF J. I. CASE COMPANY'S POSITION

J. I. Case Company ("Case") is a major North American manufacturer of construction and agricultural equipment and has substantial production facilities both in the United States and Canada. Confidential data regarding Case's facilities, employees, products and trade volume, have been provided to the International Trade Commission.

Case accounts for several hundred million dollars in trade between the United States and Canada each year, and is in strong support of mutual reductions of trade barriers between the two nations. It is our hope that the on-going trade negotiations will result in an across-the-board elimination of import duties, excise taxes, and other trade barriers. In the alternative, should the United States and Canada decide to negotiate on an industrial sector basis, Case supports a full reduction in tariffs, excise taxes, and other trade barriers on agricultural machinery, construction equipment and accessories as well as parts, sub-assemblies, materials, and equipment used in the production of those products.

II. THE COMPETITIVE POSITION OF J. I. CASE COMPANY

J. I. Case Company is a wholly-owned subsidiary of Tenneco, Inc. In 1985, Case acquired selected assets of the Agricultural Equipment Group of International Harvester Company, and now has several hundred United States and Canadian suppliers supporting its Canadian and United States production plants. Case facilities, for example, purchase substantial quantities of Canadian steel for use in the United States and U.S. steel for use by its facilities in Canada.

Additionally, service parts distribution centers in the United States and in Canada combine communications, modern technology and human effort to support a total North American marketing enterprise. Trade in spare parts between the two countries accounts for a substantial portion of Case's overall parts sales in North America. The combined U.S. and Canadian facilities are an essential element of a worldwide production/marketing distribution system.

The economic vitality of J. I. Case Company, and its many employees located in Canada and the United States, is critically dependent on two factors: the level of economic activity of the user industries in the markets it serves, and the impact of foreign competition on the North American market.

The United States and Canada are viewed as a unified North American market from both a production and distribution perspective. At the same time, Case is an active participant in the global market and as a result has developed its position as outlined in this statement with respect to the subject trade negotiations.

Over the past decade, the construction equipment industry has suffered substantially from cyclical poor market conditions in the user industries, specifically, the construction trades, and in increased trade competition especially from Japan. While the weakening of the U.S. dollar has recently provided Case some assistance in competing with imported products, the expected benefit has not been fully realized in the North American market vis-a-vis Japanese imported products. It may be that, because of historically established price levels associated with those imports, Japanese suppliers have elected not to adjust their U.S. prices to reflect the rising value of the Japanese yen, and are selling these goods at less than fair market value.

Similarly, the agricultural section of the North American economy has been very depressed for about seven years. Imports from Japan have caused injury to certain sectors of this economy as well. There does not appear to be any prospect for substantial change in either agricultural equipment [illegible] or low priced imports within the next several years.

In addition, Case has been competing against either duty-free or low duty rate products imported into the United States and Canada under the Generalized System of Preferences ("GSP") and the General Preferential Tariff ("GPT") respectively. Imports of parts and attachments for construction machinery manufactured in designated GSP and GPT beneficiary developing countries have been particularly damaging to U.S. and Canadian producers.

If J. I. Case Company is to improve or even retain its competitive position in the North American market, and at the same time increase its presence in other markets through the export of North American manufactured goods, it requires the free movement of products among its various production and distribution facilities. Presently, products shipped in intracompany transactions as well as finished products sold across the United States-Canada border are encumbered by existing import duties and excise taxes.

J. I. Case Company's production and marketing capabilities are intimately interwoven and interdependent in North America. The Case operations in these two countries reflect a true partnership in production, marketing, and distribution. Yet disparities exist that disturb this partnership. Duty levels on like commodities -- on both construction machinery parts, materials, supplies and finished goods, are twice as high on imports into Canada as on imports into the U.S. These disparities can be overcome with the proposed free trade agreement.

A free trade area would provide an improvement in overall competitiveness for J. I. Case Company by harnessing the efficiencies and economies of scale on both sides of the border.

This bilateral arrangement would, of course, improve our competitive position vis-a-vis outside or foreign producers. Such a free trade base would allow Case to maintain or improve its current position in the worldwide market to the benefit of both the U.S. and Canadian economies.

In another sense, Case's customers, the farmers and the contractors of the United States and Canada, would be the real beneficiaries of a free trade area. It would tend to act as the "great equalizer" against off-shore competition.

This bilateral approach has been well proven by the success of the European Free Trade Association. Thus, a free trade area with Canada would foster even greater economic interdependence between our countries.

It is the position of J. I. Case Company that the proposed free trade area would provide a rare opportunity to strengthen our competitiveness and to improve the economies on both sides of our open border. A free trade area, without impediments and without sectoral protectionism, will allow Case, as well as others, to increase sales in an expanding Canadian market. Such an economic partnership would be but a natural extension of our shared history as close trading partners.

III. SUBSTANTIAL AMOUNTS OF J. I. CASE COMPANY PRODUCTS ARE SHIPPED BETWEEN THE UNITED STATES AND CANADA

Case operates manufacturing facilities in both the United States and Canada. It ships finished agricultural and construction equipment between those countries, as well as auxiliary equipment and replacement parts for those products.[1] Much of the sourcing for Case manufacturing facilities originates either in Canada or in the United States, therefore, Case transfers substantial quantities of parts and components as well as expendable manufacturing supplies and production equipment between Canada and the United States.[2]

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[1] In general, J. I. Case Company products include the following: grain drills, farm spreaders, farm loaders, snow blowers, wind rowers w/platforms, forage harvesters, plows (furrow & clutch), disk harrows, rotary hoes, sub soilers, disks-(OEM Disks), air drills, agricultural tractors, rubber tire & crawler excavators, trenchers & cable layers, tire mounted log handlers, tree harvesters, crawler dozers, crawler loaders, fork lifts, skid steer loaders, cotton pickers, and combines and harvesting machines.

A partial list of the products for which Case seeks either to maintain or establish a duty-free and excise tax free trade between Canada and the United States has been submitted to the Interstate Commerce Commission specifying TSUS item numbers and current duty rates. In addition to those duty rates, Case pays an excise tax of 12% of the landed value (including transportation costs and import duties) on most dutiable products and on some non-dutiable products.

IV. J. I. CASE'S POSITION WITH RESPECT TO AGRICULTURAL AND CONSTRUCTION EQUIPMENT

As stated previously, Case advocates an across-the-board reduction and elimination of duties and other trade barriers for all agricultural and construction equipment, accessories, parts, assemblies, and production-related equipment moving across the Canadian-United States border. To accomplish this, it would be in the best interests of Canada and the United States to establish a free-trade area between these two countries without sectoral limitations for the reasons set forth earlier. Case, and other companies similarly situated, should not be burdened by duties or excise taxes assessed on intra-company shipments or on sales within the North American market. The full range of products included in this category is far too broad to detail in this brief paper. Case desires that its bi-country production facilities and markets be placed on equal footing with its competitors conducting manufacturing operations business either solely in the United States or solely in Canada. This can only be accomplished through an across-the-board elimination of these trade restrictions.

In addition, United States and Canadian steel are currently used in Case's Canadian and United States production facilities. Similar duty free and excise tax free treatment should be afforded to steel used in our manufacturing processes. However, should negotiations and a final agreement be based on product sectors, Case would like to comment at the appropriate time on the treatment of such products in those sectors.

A. Agriculture Equipment -- Case would like to preserve the present mutual duty-free treatment on finished agricultural equipment. In addition, the excise tax assessed in Canada at the time of importation of such equipment should be eliminated. Currently, the Canadian government has exempted agricultural equipment from excise tax assessment provided actual-use certifications are filed. Case views the need for filing such certifications as counterproductive and a barrier to trade.

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[2] A confidential description of products manufactured by J. I. Case in both Canada and the United States has been provided to the International Trade Commission.

Moreover, rules relating to duty-free treatment of agricultural implements, accessories, and replacement parts should be established to ensure that any part capable of use on agricultural equipment should be imported into either country from the other without any assessment of duties or excise taxes. If capability for use on agricultural equipment is not feasible as a basis for mutual duty-free treatment, Case maintains that at minimum, equipment, parts, and implements that are actually used in agricultural production should be exempt from duty and excise tax.

In addition, supplies and production equipment used in the production of such agricultural equipment should also qualify for duty and an excise tax exemption for such articles traded between both countries.

B. Construction Equipment -- Case's position is that all construction equipment should be exempt from duty and excise tax upon entering the U.S. or Canadian markets. Currently, the government of Canada assesses an import duty which is approximately twice the U.S. duty rate on most construction equipment imported from Canada. This unfair situation has limited Case's access to the Canadian markets for its U.S.-produced construction equipment. Just as with agricultural equipment, J. I. Case believes that, at a minimum, all components, parts, accessories, and production support equipment, including materials, supplies, and manufacturing equipment actually used by a construction equipment manufacturer, should be entitled to duty free treatment when crossing the border.

VI. CONCLUSION

For the reasons stated above, J. I. Case Company maintains that full duty-free and excise tax free exchange of goods across the Canadian border for all products is in the best interests of the United States and the Canadian economies. If this should not prove feasible at this time, then the agricultural and construction equipment sectors, due to their sensitive nature and their export generating potential, should be among the prime sectors considered for trade barrier elimination or reduction.

In addition to tariff reduction, we suggest that the negotiations should include the streamlining of many Customs procedures. Case, as a major U.S.-Canadian trader, is involved in a vast number of transactions, and the elimination of burdensome entry and other Customs procedures should also be reviewed in connection with the establishment of the proposed Free Trade Agreement. The elimination of many of these non-tariff barriers to Canadian-U.S. trade would also result in great mutual benefits.

Respectfully submitted,

J. I. CASE COMPANY

Richard B. Ryndak

Richard B. Ryndak
International Counsel
Assistant Secretary

JOINT MARITIME CONGRESS

Hall of the States Building, 444 North Capitol Street, Suite 801, Washington, DC 20001 Telephone (202) 638-2405

Bruce J. Carlton
Executive Director

August 17, 1987

The Honorable Lloyd Bentsen
Chairman, Committee on
Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

The Joint Maritime Congress (JMC) appreciates the opportunity to comment on the U.S.-Canada free trade area negotiations. JMC is a research and education group whose membership is comprised of over 100 U.S.-flag ship operating companies. As such, we are gravely concerned that the United States Trade Representative's (USTR) office has placed the U.S. maritime industry on the negotiating table with all other service industries, with no apparent analysis of the consequences.

The U.S. merchant marine is a privately-owned, commercial entity with a crucial national defense role: to serve as a naval auxiliary in time of war or national emergency. In its military capacity, the fleet is our nation's "fourth arm of defense," providing strategic sealift services, often through hostile seas and under direct military attack, to ensure the free flow of American commercial and military waterborne commerce.

In order to meet this military mission, Congress has enacted various laws which mandate U.S. citizen ownership, operation and manning of the fleet's vessels. Likewise, the fleet must be comprised of the best equipped, safest and most suitable types of vessels, and must be sufficiently large to carry all of our domestic waterborne commerce and a substantial share of the U.S.-foreign trade. The overall policy of guaranteeing a militarily useful merchant fleet cannot be borne out if the nation fails to meet any of these obligations.

Historically, the American maritime industry, the Congress and designated federal agencies perform the necessary job of ensuring that our fleet is maintained with an adequate numerical, technical and manning capability. Cargo preference laws, the Jones Act and various promotional programs created by the Merchant Marine Act of 1936 are examples of aids used in this country to bolster the fleet and our nation's maritime defense needs.

We have met with Ambassador Murphy and his staff, at their invitation, to be briefed on current prospects for the negotiations and the rationale for including the maritime industry in the service sector discussions. It is all too clear from this meeting and others with senior Administration officials that the maritime industry was included on the basis of a sweeping and all inclusive negotiating strategy. While we perceive no malevolence at USTR, we can also perceive no critical analysis of the likely results of opening up present or future U.S. maritime trades and programs to Canada.

The proposal being discussed by Ambassador Murphy and his Canadian counterpart would very likely lead to greatly diminished cargo opportunities for U.S.-flag vessels of all types in both domestic and foreign commerce. That portion of the American market reserved for American vessels, our domestic trade, would be poised for a flood of shipping tonnage. The only result would be severe oversupply, plunging freight revenues and the likely bankruptcies of companies that have invested billions of dollars under long established market rules in large part dictated by federal law. Similarly, opening up any future assistance program for our foreign trade fleet to vessels from Canada (or other countries using Canada as a gateway) would be disastrous. These programs were designed by Congress to keep an American presence in a world trade dominated by foreign interests. Congress made those decisions on the basis of foreign policy and national defense considerations. In sharp contrast, those decisions are proposed to be scrapped by our negotiators in their haste to conclude an agreement with Canada.

Again, it is clear that no comprehensive assessment was performed before these discussions began. The Administration did not seek our views prior to undertaking these negotiations. Had they done so, I would like to think they would have reached the correct (and obvious) conclusion: opening U.S. maritime programs to Canada is strictly a one-sided proposal for the sole and exclusive benefit of Canada. But, since they did not take this elementary step, we are now being told that regardless of the consequences, maritime services cannot be removed from the agenda as that would undermine the overall negotiating strategy. We believe that is an absurd and totally unacceptable posture. The American merchant marine should not have to be bankrupted so that other industries might gain. We have no quarrel whatsoever with those industrial sectors which perceive a gain from establishing a Free Trade Area with Canada. But we must protest most vigorously if that gain is to come at our expense while our negotiators wait to see which side "blinks first."

As you know, the agreement is being negotiated under so-called "fast track" rules allowing the Congress only an "up-or-down" vote on the entire package. Your Committee will have an important role in the examination of the agreement commencing in October. We cannot overemphasize the importance of this issue to our industry, and the urgency we attach to removing maritime matters from the talks now. We admire the leadership you are showing in soliciting views early, and trust you will agree with our assesment.

Again, I appreciate this opportunity to express the concerns of this organization and our membership. If we can be of further assistance, please do not hesitate to contact us.

Sincerely,

Bruce J. Carlton

Bruce J. Carlton
Executive Director

CABLE ADDRESS
KEYSHIPCO

TELEPHONE 215-928-3800
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KEYSTONE SHIPPING CO
313 CHESTNUT STREET
PHILADELPHIA PENNSYLVANIA 19106

August 14, 1987

Senate Finance Committee
United States Senate
Washington, D.C. 20510

Attention: Laura Wilcox,
Hearing Administrator, Room SD-205

Gentlemen:

We have recently learned that the United States and Canada are currently negotiating to establish a Free Trade Area Agreement (FTA) which may severely impact long-standing U.S. maritime policies essential to the entire U.S. Maritime Industry.

As operators of eighteen U.S.-flag tankers, we believe such a policy may well have severe impact on the very existence of the continually viable maritime industry including shipbuilding, inland tug and barges, the Great Lakes fleet, offshore oil and gas and the international and domestic maritime fleets.

It is our understanding that one proposal which is being considered in the official U.S. negotiating position would provide Canadian maritime interests the benefit of equal participation in any future maritime programs. This would, in our opinion, further erode the very foundation on which the U.S. maritime industry is based - - the Jones Act. Our trade negotiators should not bargain away the maritime industry or its support.

U.S. maritime interests have been suffering from inattention and are unable to compete with foreign government subsidized maritime industry.

It has been well established that a viable merchant marine and shipyard industry is important to the national defense of this country. If maritime matters are included, the FTA negotiations could further dismantle this.

Without specific directions on this point the FTA may well succumb to pressure from other American trading partners and allies for the U.S. to grant similar privileges to their maritime industries.

Once Congress has lost control of its ability to direct such policies, Congress may be unable to exercise its right to prevent the further dismantling of the U.S. Maritime Industry. We, therefore, respectfully urge you to notify the U.S. Trade Representative of the Economic Policy Counsel, U.S. Maritime Programs cannot and will not be subject to negotiation.

Respectfully submitted,
KEYSTONE SHIPPING CO.

A. B. Kurz

/jjp

Lafarge Corporation

Bertrand P. Collomb
Vice Chairman of the Board
and Chief Executive Officer

August 12, 1987

The Honorable Lloyd M. Bentsen
United States Senate
Room 703, Hart Building
Washington, D.C. 20510

Dear Senator Bentsen:

The purpose of this letter is to indicate our support for free trade between Canada and the U.S.

Lafarge Corporation is a cement and construction materials company that conducts production and sales activities in both the United States and Canada. In fact, our company is organized in such a fashion that both U.S. and Canada operations are conducted within the same management unit. Our desire is to distribute our products to the end user in the least cost, most efficient fashion. In some cases this means that a product produced in the United States is sold in Canada and in other cases that a product produced in Canada is sold in the United States.

Without free trade it would be impossible to achieve the most efficient distribution of our products. Inefficient distribution combined with less efficient utilization of existing facilities would mean higher cost products that would ultimately be paid for by the consumer. We do not believe the inflationary pressures caused by trade restrictions are in the best interest of either Canada or the U.S.

We urge you to support free trade for cement and construction materials.

Sincerely,

BPC:jw

cc: Gail Harrison - ACTE

12801 NORTH CENTRAL EXPRESSWAY • NORTH CENTRAL PLAZA III, SUITE 1700
MAILING ADDRESS: P.O. BOX 324, DALLAS, TEXAS 75221 • (214) 934-7101

Comments By

George J. Ryan
President
Lake Carriers' Association

Concerning

U.S./CANADA FREE TRADE AREA AGREEMENT NEGOTIATIONS

Senate Committee on Finance
August 17, 1987

SUMMARY

Trade negotiations with Canada or any other country must not include U.S. maritime policy or programs stemming from Congressionally mandated statute laws rooted in the conviction that the U.S. Merchant Marine is the Fourth Arm of National Defense. Efforts to increase trade in goods and limited range of other services between the United States and Canada are worthwhile. The Special Trade Representative must not trade away existing or future laws promoting the U.S. Merchant Marine - including Cabotage Laws, government impelled cargo reservation laws, and direct or indirect financial aid programs to ship operators or shipbuilders/repairers. The Jones Act is the keystone of U.S. coastwise (Cabotage) laws which provide economic stability for U.S. investors in vessel equipment in the Great Lakes, inland rivers, and coastwise. The opening of the U.S. coastwise trade to Canadians, and then to other foreign nationals through Most Favored Nation clauses in existing treaties, will destroy the U.S. shipbuilding, ship repair, and ship ownership base needed to meet U.S. foreign policy objectives - particuarly relating to sealift for small and large scale conventional military operations. It is inconceivable that Congress would allow the Special Trade Representative to trade away the U.S.-flag Merchant Marine for some short-term improvement in the export of some commodity and thus require future Administrations to ask allies for prior approval and vessel support for a future U.S. military operation consistent with unique U.S. foreign policy objectives. The Senate must tell the Administration to remove maritime issues from the FTA negotiations.

# # #

Lake Carriers' Association represents over 95 percent of the gross tonnage of the U.S.-flag commercial vessels engaged in the coastwise trade in the Great Lakes. Our members include: American Steamship Company; Bethlehem Steel Corporation; Cement Transit Company; Cleveland Tankers, Inc.; Coastwise Trading Company; Erie Sand Steamship Co.; Inland Lakes Management, Inc.; Inland Steel Company; The Interlake Steamship Company; Litton Great Lakes Corp.; M. A. Hanna Company; Oglebay Norton Company; Rouge Steel Company; and USS Great Lakes Fleet, Inc. These vessels carried 91 million tons of cargo in 1986.

These U.S.-flag ship companies employ U.S. citizens and carry essential bulk raw materials between U.S. ports. These American companies have substantial investments in vessel assets. Several of the member companies have the vessel mortgages guaranteed by the U.S. Maritime Administration Mortgage Insurance Program. None of the vessels were built with U.S. Government subsidy assistance. These private sector investments were made with the understanding from the U.S. Government that the historic reservation of coastwise trade for U.S.-flag, U.S.-owned, U.S.-crewed vessels would not change.

Canadian-flag vessels have been built in Canada for Canadian coastwise trade with substantial Canadian Government subsidies. Those Canadian vessels not built in Canada were built at low cost in foreign government subsidized shipyards in Ireland, England, Scotland, Finland, Germany, and Japan. Some are now under construction in Brazil. Thus, the capital costs of Canadian vessels are substantially lower than U.S. vessels.

Canadian crew operating costs are less than American crew costs, in part because of the dollar disparity, Canadian government pension and health benefits, and a more favorable wage agreement. A full explanation of these disparities is contained in the U.S. Government Accounting Office Report, "Great Lakes Shipping-U.S.-Flag Share of the U.S./Canada Trade on the Great Lakes" GAO/RCED-86-115, May 1986 (GAO Report).

Given the lower Canadian capital and operating costs, the lack of U.S. Government assistance to the U.S.-flag domestic fleet, and other Canadian advantages, the GAO Report found that the U.S.-flag ships have been carrying a declining share of the cargo between the United States and Canada. In 1953, U.S.-ships carried 29 percent of the cargo; in 1984 U.S. ships carried 6.4 percent of the cargo. Today, that share is less than 4 percent. Clearly, the Canadian Government has provided Canadian shipowners with the ability to dominate the trade between our two countries. It is for these reasons that the U.S.-flag vessels serve almost exclusively in the domestic U.S. trade. This coastwise trade is reserved for U.S.-flag, U.S.-built, and U.S.-crewed ships by the Cabotage Laws of the United States - known as the Jones Act.

The above background is necessary to understand why our members strongly oppose any change in U.S. maritime law or policy which would allow Canadian corporations or other foreign corporations to operate foreign-built, foreigncitizen crewed ships in the coastwise trade of the United States. Such a dramatic shift in public policy would seriously change the "rules of the game" and deny American corporations a "level playing field." Members of Lake Carriers' Associaton and other U.S. shipowners would be forced out of business as we abide by the U.S. laws with their attendant higher costs, while our Canadian or other foreign competitors could come in by their rules, and lower costs.

This action would permit Canadian-owned ships with Canadian or non-Canadian crews operating ships built anywhere in the world to compete against American companies with American-built ships and American crews. These ships would be able to take over commerce in the inland rivers, the lakes, and the near oceans. They would be able to provide Canadian-flag tugboats, push boats, dredges, barges, dinner boats, excursion boats, passenger ferry boats, railcar ferries, bunker barges, coastwise tankers, colliers, containerships, lake bulk carriers, and every conceivable watercraft in head-to-head competition with ships built in American yards. Canadian ships manned with Canadians or foreign crews would drive Americans off our own waterfronts.

Should the Canadians gain access to the U.S. coastal trade, it would be only a matter of time before all of the nations with whom we have treaties of amity and commerce would negotiate entry into the U.S. coastwise trade.

The nation with the greatest potential to emulate the Canadian entry into the U.S. domestic trade is Mexico. Mexican ports have access to the intercoastal waterways and, with their lower operating costs, would quickly gain entry into the Gulf of Mexico and Mississippi River and tributaries trades. Mexican workers would legally displace American crews from Chicago to Sioux City, Catoosa, Pittsburgh, Shreveport, and Montgomery, as well as hundreds of other U.S. cities along our inland waterways. The Canadian dominance of our trade would be short lived after a low-wage cost country, such as Mexico, enters our trades. One must speculate if the lowest common denominator among nations with most favored nation treaty arrangements with the United States would ultimately have free access in the heartland of America. A careful analysis of those countries with most favored nation treaties will show the significance of this dangerous policy.

The implications of the abrogation of historical Cabotage Laws are far reaching. Most significantly, they will impact on the national security through the removal of jobs in the commercial sector in which crew and officers are trained to operate vessels. The Jones Act fleet creates employment for approximately 125,000 U.S. citizens. In addition to the employment benefits, these people also are the manpower needed as the nucleus pool to operate commercial vessels and those ships in our ready reserve fleet to meet the U.S. military sealift response capability. Without this U.S. citizen manpower pool, the U.S. Government will lose its ability to carry out national objectives abroad.

Secondarily, the loss of the Jones Act fleet will destroy the remaining shipbuilding and ship repair industry in U.S. waters. This includes the Great Lakes shipbuilding industry in Ohio and Wisconsin That work will be done in Canadian, Mexican, Caribbean, and Central American ports. The U.S. military, as well as the surviving commercial sector, will not have a U.S. ship repair industry to rely upon. Needless to say, in time of national emergency or when we pursue independent foreign policy objectives, we cannot afford to be dependent upon even the friendliest of allies for this manpower or logistic support.

In addition to the coastwise trade laws, there are many other maritime laws of vital interest to the United States. Changes in these laws or maritime policy have such significant national defense and commercial implications that they must not be included in a trade bill. These laws must be considrred carefully by the appropriate committees in Congress.

One of the most important responsibilities Congress and the Administration has is to maintain a U.S.-flag merchant fleet and the skilled manpower to operate those ships, available at any time to support U.S. foreign policy objectives including conventional military operations.

The U.S./Canada Free Trade Area Agreement negotiations are not the proper forum for the Administration to decide these far reaching issues. The Senate must tell the Administration to remove maritime issues from the U.S./Canada Free Trade negotiations.

LOWE'S
Companies Inc.

Petro Kulynych
Founding Director

August 12, 1987

The Honorable Lloyd E. Bentsen
Chairman
Committee on Finance
United States Senate
205 Senate Dirksen Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

This writing is in support of the American Coalition For Trade Expansion With Canada, and to oppose restrictive trade barriers with the United States largest trading partner.

Lowe's Companies is a major supplier of lumber and building products to the building contractor and the home construction industry, as well as, to the retail do-it-yourself customers. Our sales in 1987 will approach $2.5 billion; of which, over $500 million is made up of lumber products. Lowe's sells about an equal amount of Southern Yellow Pine and West Coast and/or Canadian lumber.

The 15% export duty imposed on Canadian lumber products has dealt a set-back to Canadian lumber being able to flow freely into domestic markets, where this specie is desired by our customers. The entire issue has been disruptive to our industry for over one year, and swift resolution needs to take place in order to improve our trading partnership with Canada.

Southern Yellow Pine and Canadian S-P-F are two distinctly different species. Each specie has its advantages and is a preferred species for particular applications. The typical home-builder prefers Southern Yellow Pine trusses for roof systems and 2x10's for floor joists. This same builder will prefer Canadian S-P-F studs, plate stock and rafters in stick-built construction. The builder needs to be able to make the choice and buy whatever specie he desires for the particular construction need.

A bilateral trade agreement to allow Canadian goods to flow into domestic markets without duties benefits the home construction industry and the whole U. S. economic system.

Even though Lowe's Companies will sell in excess of $200 million in Canadian S-P-F lumber this year, it could have been even more had there not been restrictions and general confusion, particularly during the early part of 1987. Canadian S-P-F lumber has had very little limited sales growth in Lowe's Companies this year due to these restrictions. Lowe's Companies employs over 17,000 persons, and this issue has a direct affect on our corporate performance.

More than 50% of Lowe's sales this year will be to the retail customer.

This customer involved in "DIY" projects needs to have the product available to satisfy his material needs. In many instances, shelving made of Ponderosa Pine or Canadian Spruce is the desired species because of workability and other characteristics, such as less wane, warpage and twisting.

Lowe's Companies needs both the Southern Lumber industry and the Canadian Lumber industry operating on the basic laws of supply and demand. We need to be able to offer to our customers the choice in lumber species based on the particular job application. In addition, we need to be able to offer the product at competitive costs, and free, unrestrictive trade offer the best opportunity for this situation.

We solicit your support in these trade negotiations and request that trade be expanded rather than restricted with Canada.

Sincerely,

Petro Kulynych

PETRO KULYNYCH
Founding Director

LYKES BROS. STEAMSHIP CO., INC.
OWNERS

Lykes Lines

W. J. AMOSS, JR.
CHAIRMAN AND CHIEF
EXECUTIVE OFFICER

LYKES CENTER · 300 POYDRAS STREET
NEW ORLEANS, LOUISIANA 70130

August 17, 1987

The Honorable Lloyd Bentsen
Chairman
Committee on Finance
205 Senate Dirksen Office Building
Washington, D.C. 20510-6200

Dear Senator Bentsen:

The negotiations between the United States and Canada which seek to establish a Free Trade Area Agreement, will, unless modified, have a devastating effect on our maritime industry. Our Company, Lykes, is the largest operator of American flag liner vessels with thiry-two ships in its fleet; therefore, you can readily understand our deep concern at this sudden threat to the existence of the entire American merchant marine now posed by the intent of the negotiators of the trade agreement.

We at Lykes urge you and your committees to support our merchant marine in this critical period by advising Secretary of the Treasury, James A. Baker, III and the President's Trade Negotiator, Ambassador Clayton Yutterer, of your strong opposition to any language in the trade agreement with Canada which would impinge on the maritime policy of the United States.

Yours sincerely,

WJAmoss, Jr.

W. J. AMOSS, JR.

cc : Laura Wilcox, Hearing Admistrator, Committee on Finance
Mary McAuliffe, Minority Chief of Staff, U.S. Senate

MARITIME INDUSTRY COALITION

STATEMENT

SUBMITTED TO

THE FINANCE COMMITTEE

UNITED STATES SENATE

REGARDING THE MARITIME ASPECTS OF THE

PROPOSED U.S.-CANADA FREE TRADE AGREEMENT

The Honorable Lloyd Bentsen
Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

Current negotiations between the United States and Canada regarding the establishment of a Free Trade Area Agreement (FTA) threaten to dismantle longstanding U.S. maritime policy essential to our shipyards, inland tug and barge industry, the Great Lakes fleet, the offshore oil and gas service industry and both our international and domestic maritime fleets. On behalf of the undersigned, representing nearly the entire U.S. ship operating and shipbuilding industries, we wish to to take this opportunity to alert you to the dangers of including basic U.S. maritime policies in the FTA, and ask your support in seeking their complete removal from the negotiating process.

The full impact of including U.S. maritime programs in the proposed FTA on national security or on the Nation's economy, has not been fully considered. We find this inattention to national security especially distressing in view of the recent finding of insufficient sealift assets contained in the first-ever Presidential Report on National Security. The critical situation described in the report will become even more dire in later editions if the U.S. merchant marine and shipbuilding capacity are decimated in the haste to reach a Free Trade Agreement with Canada.

It is our understanding that one proposal which is being considered as the official U.S. negotiating position is to "grandfather" existing U.S. maritime programs and provide Canadian maritime interests the benefits of equal participation in any future U.S. maritime policies. Such a proposal, at first glance, might seem reasonable to some, but is tantamount to foreclosing on the future for a vital American industry. Considering the advantages Canadian maritime interests would enjoy in economic, promotional, regulatory and fiscal terms under such an arrangement, no objective analysis could argue for the survival of a disadvantaged U.S.-flag fleet and vital shipyard mobilization base in such a hostile competitive environment.

The future for the U.S. maritime industry abounds with the potential of new technologies. Offshore industrial activities relating to ocean mining, ocean thermal energy conversion, wave action energy production units, various forms of aquaculture, new fisheries techniques, ocean incineration, offshore disposal activities and other functions, are now emerging as viable technologies. As these new ocean industry functions come on line appropriate legislation will be required to govern the expanded scope of maritime activities. However, as envisioned by the "grandfather" proposal, Canadian-flag vessels would have national treatment under any new legal regime established to govern these areas. Under Canadian law, any Canadian-flag vessel that worked in U.S. waters without calling at a Canadian port could be foreign-built and carry low-cost crews from third world nations. As a result, unsubsidized U.S.-flag operators could never compete against such overwhelming odds.

Equally, if not more important, such an arrangement would deny Congress the opportunity to fashion maritime programs suitable to meet the industrial and national security demands of the 21st century. In addition, if Canada is allowed access to current or future U.S. maritime programs, it is quite likely that America's other trading partners will seek similar privileges, and may be empowered to do so by existing treaties. Thus, Congress would be reduced to a caretaker role, serving as nothing more than a witness to the systematic dismantling of the U.S. merchant marine. As a result of this concern, Senate Concurrent Resolution No. 69, introduced by Senator John Breaux and 55 colleagues, expresses the view that maritime issues should be removed from the scope of negotiations.

In response to the problem of a declining U.S. merchant marine, Congress mandated and the President appointed, the National Commission on Merchant Marine and Defense. The Commission's purpose is to examine U.S. sealift needs, the status of the U.S. merchant marine and allied industries and to make recommendations regarding appropriate government action to insure that the United States has a maritime policy which is responsive to national economic and security requirements. Yet, the proposal to allow Canadian-flag equal access under any future U.S. maritime programs will make the Commission's recommendations and Congressional intent moot. Should the U.S. government determine that a viable merchant marine requires the formulation of a well-crafted program of minimal government support, the costs of such proposals would increase enormously if Canadian-flag vessels also were eligible.

Therefore, we believe that any changes to existing law and policy, such as those being discussed within the current negotiations, must be considered carefully by all of the appropriate committees of the Congress. This is essential in view of the "fast track" authority governing the FTA negotiations. As you know, under this authority, a Congressional up-or-down vote on the entire package is required, precluding any changes or deletions.

Therefore, we respectfully urge the Committee to advise the United States Trade Representative and the Economic Policy Council that U.S. maritime programs are not subject to negotiation. Without such a clear statement, the future of the U.S. maritime industry and U.S. national security are imperiled.

Sincerely,

ADDSCO INDUSTRIES, INCORPORATED
ALOHA PACIFIC CRUISES, INCORPORATED
ALLIED TOWING CORPORATION
AMERADA HESS CORPORATION
AMERICAN HAWAII CRUISE LINES
AMERICAN HEAVY LIFT SHIPPING COMPANY
AMERICAN INSTITUTE OF MERCHANT SHIPPING
AMERICAN MARITIME OFFICERS SERVICE

AMERICAN PILOT'S ASSOCIATION
AMERICAN PRESIDENT LINES, LTD.
AMERICAN STEAMSHIP COMPANY
AMERICAN TOWING & TRANSPORTATION COMPANY, INCORPORATED
AMERICAN WATERWAYS OPERATORS
AMOCO TRANSPORT COMPANY
APEX MARINE
ARNOLD TRANSIT COMPANY
ASSOCIATION OF MARYLAND PILOTS
AVONDALE INDUSTRIES, INCORPORATED
BATH IRON WORKS CORPORATION
BAY HOUSTON TOWING COMPANY
BAY SHIPBUILDING CORPORATION
BETHLEHEM STEEL CORPORATION
BIGANE VESSEL FUELING COMPANY
BOB-LO COMPANY
BULKFLEET MARINE CORPORATION
C.G. WILLIS, INCORPORATED
CAPE FEAR TOWING COMPANY, INCORPORATED
CAPITAL MARINE CORPORATION
CEMENT DIVISION -- NATIONAL GYPSUM COMPANY
CENTRAL GULF LINES, INCORPORATED
CONTINENTAL MARITIME INDUSTRIES, INCORPORATED
COUNCIL OF AMERICAN FLAG SHIP OPERATORS
CRESCENT TOWING & SALVAGE COMPANY
CROWLEY MARITIME CORPORATION
CURTIS BAY TOWING COMPANY OF VIRGINIA
CURTIS BAY TOWING COMPANY OF PENNSYLVANIA
DANAHY MARINE SERVICE
DELTA QUEEN STEAMBOAT COMPANY
DIXIE CARRIERS, INCORPORATED
DUNBAR & SULLIVAN DREDGING COMPANY
EDWARD E. GILLEN COMPANY
ENERGY TRANSPORTATION CORPORATION
ERIE NAVIGATION COMPANY
EXPRESS MARINE, INCORPORATED
FALCON MARINE COMPANY
FARRELL LINES, INCORPORATED
G&H TOWING
GASTRANS, INCORPORATED
GENERAL DYNAMICS CORPORATION
GENERAL SHIP CORPORATION
GREAT LAKES INTERNATIONAL, INCORPORATED
GREAT LAKES TASK FORCE
GULF ATLANTIC TRANSPORT CORPORATION
HANNAH MARINE CORPORATION
HIGMAN TOWING COMPANY
INGALLS SHIPBUILDING DIVISION
INLAND BOATMENS UNION OF THE PACIFIC
INTERNATIONAL LONGSHOREMEN AND WAREHOUSEMENS UNION
INTERNATIONAL MARINE CARRIERS INC.
INTEROCEAN MANAGEMENT
ISLAND SHIPPING LINE
JACKSONVILLE SHIPYARDS, INCORPORATED
JOINT MARITIME CONGRESS
KINSMAN LINES, INCORPORATED
KEYSTONE SHIPPING COMPANY
LAKE CARRIERS ASSOCIATION
LITTON GREAT LAKES CORPORATION
LOCKHEED SHIPBUILDING COMPANY
LUEDTKE ENGINEERING COMPANY
LYKES BROS. STEAMSHIP COMPANY, INCORPORATED
MARINE CONTRACTING AND TOWING COMPANY
MARINE CONTRACTING COMPANY
MARINE OIL SERVICE, INCORPORATED
MARINE TRANSPORT LINES
MARINETTA MARINE CORPORATION

MARINE ENGINEERS BENEFICIAL ASSOCIATION DISTRICT 1
MARINE ENGINEERS BENEFICIAL ASSOCIATION DISTRICT 2
MARINE ENGINEERS BENEFICIAL ASSOCIATION DISTRICT 3
MARITRANS OPERATING PARTNERS L.P.
MATSON NAVIGATION COMPANY
MARITIME INSTITUTE FOR RESEARCH AND INDUSTRIAL DEVELOPMENT
MASTER, MATES AND PILOTS
MCALLISTER BROTHERS, INCORPORATED
MEDUSA CORPORATION
METRO MACHINE CORPORATION
MORAN SERVICES CORPORATION
MORAN TOWING AND TRANSPORTATION COMPANY, INC.
MORAN TOWING OF TEXAS, INCORPORATED
NATIONAL MARITIME UNION
NATIONAL ASSOCIATION OF DREDGING CONTRACTORS
NATIONAL STEEL & SHIPBUILDING COMPANY
NEWPORT NEWS SHIPBUILDING
NORFOLK SHIPBUILDING & DRYDOCK CORPORATION
ORGULF TRANSPORT COMPANY
PETERSON BUILDERS, INCORPORATED
PILOT SERVICES CORPORATION
PRINGLE TRANSIT COMPANY
PUERTO RICO MARINE MANAGEMENT INCORPORATED
RADCLIFF MATERIALS, INC.
RAINBOW NAVIGATION
RED CIRCLE TRANSPORT COMPANY
ROBERT E. DERECKTOR OF RHODE ISLAND, INCORPORATED
SEAFARERS INTERNATIONAL UNION
SEA-LAND SERVICE INCORPORATED
SELF TOWING COMPANY, INCORPORATED
SHERIDAN TRANSPORTATION COMPANY
SHIPBUILDERS COUNCIL OF AMERICA
SOUTHWEST MARINE, INCORPORATED
STC HOLLY S. COMPANY
STEUART TRANSPORTATION COMPANY
TAYLOR MARINE TOWING, INCORPORATED
TEXTRON MARINE SYSTEMS
THE AMERICAN SHIP BUILDING COMPANY
THE BAKER-WHITELEY TOWING COMPANY
THE GREAT LAKES TOWING COMPANY
THE JONATHAN CORPORATION
TODD SHIPYARDS CORPORATION
TOTEM OCEAN TRAILER EXPRESS
TRAILER MARINE TRANSPORT CORPORATION
TRANSPORTATION INSTITUTE
UNITED STATES LINES, INCORPORATED
WATERMAN STEAMSHIP CORPORATION
WESTERN TOWING COMPANY

U.S.-CANADA FTA SUMMARY

On December 10, 1985, President Reagan formally proposed the negotiation of a Free Trade Agreement (FTA) between the United States and Canada, our largest trading partner. The stated goal of the FTA is to reduce tariff and non-tariff barriers to the $120 billion in total trade between the two nations. In 1986, Canada enjoyed a $17 billion surplus in trade with the United States. Prime Minister Mulroney has been especially vocal in his support, although both national leaders have been out front in promoting an FTA. Teams of negotiators from both countries met during the first half of 1986 to establish the framework for negotiations. The results were published in the Federal Register of July 10, 1986 and the scope of the negotiations included virtually all U.S. maritime programs while examining only a small component of the Canadian fishing industry.

The wide range of U.S. maritime programs were placed on the table at the demand of the Canadian government, which reflected maritime industry views espoused by the Canada Shipbuilding and Ship Repair Association, Canada Steamship Lines, and Pierre MacDonald, Foreign Trade Minister of the Province of Quebec. Although Canadian proposals have primarily centered on access to U.S. coastwise trades, at last report, all other maritime programs are still on the table. No ironclad assurances have been made that those programs will not be affected by the proposed FTA.

Reportedly, the current U.S. negotiating position involves the "grandfathering" of all existing maritime laws and regulations, thereby granting national treatment (access) to Canada for all future U.S. maritime policies, which are beyond the scope of current policy. The industry has made known to the USTR its total and unified opposition to that proposal, which would essentially foreclose on the future of the U.S. merchant marine by limiting potential benefits from expanded maritime promotional programs.

Although there are no guarantees that an agreement will be reached, whatever form the FTA takes after final negotiation, it faces an October 5, 1987 deadline imposed by Congress to provide ample time for Congressional review before the fast track authority expires in January, 1988. Thus, Congress will have 90 days to review the package and vote up or down on the total FTA without recourse to addressing specific provisions.

In order to insure that the Congressional role in the formation of U.S. maritime policy is not circumvented by the proposed FTA, efforts are underway on the legislative front. In the House, Merchant Marine and Fisheries Committee Chairman Walter Jones introduced H. Con. Res. 157, cosponsored by more than 213 members, expressing the view of the House that U.S. domestic maritime policy, now and in the future, should be exempted from the inclusion in the FTA. In the Senate, Merchant Marine Subcommittee Chairman, Senator John Breaux introduced a resolution with 55 cosponsors expressing the view that all maritime services be removed from the negotiating process in order to insure the future viability of the U.S. merchant marine. Both resolutions have broad and deep support within the U.S. maritime industry.

The U.S. maritime industry is united in its efforts to keep any issues pertaining to maritime services off the bargaining table.

Maritime Institute for Research and Industrial Development
MIRAID
1133 Fifteenth Street, N.W. • Suite 600 • Washington, D.C. 20005 (202) 463-6505

C. JAMES PATTI
President

August 17, 1987

Senator Lloyd Bentsen, Chairman
Senate Committee on Finance
205 Dirksen Senate Office Building
Washington, DC 20510

RE: U.S.-Canada Free Trade
Area Negotiations

Dear Mr. Chairman:

The Maritime Institute for Research and Industrial Development appreciates the opportunity to present brief comments on the current trade negotiations between the United States and Canada regarding the removal of non-tariff trade barriers. The Maritime Institute is a non-profit association of companies operating United States-flag vessels in all aspects of our nation's foreign and domestic commerce. As such, we are vitally interested in any trade negotiations which may affect the present and future health of our industry.

It is our understanding that all areas of U.S. maritime policy are open for negotiations at the insistence of the Canadians. Any alteration of U.S. maritime law and policy through the negotiation of such a trade agreement will have a significant adverse impact on the viability of our U.S. merchant marine. Consequently, we respectfully urge the Senate Finance Committee to support S. Con Res. 69 which recommends that proposals regarding maritime be removed from the agenda of the U.S.-Canadian trade negotiations.

It is the stated policy of the United States to have a private merchant marine (1) sufficient to carry our domestic waterborne commerce and a substantial portion of our foreign commerce and (2) capable of serving as a naval auxiliary in time of war or national emergency. Granting Canadian interests access to U.S. maritime trade and promotional programs flies in the face of this longstanding national policy.

The U.S. merchant marine is already in a dangerous state of decline. Canadian operating and capital costs are considerably less than those of our operators; consequently Canadian access to U.S. promotional programs will only serve to accelerate this decline and seriously undermine our nation's national security and defense preparedness.

A Non-Profit Corporation of International Organization of Masters, Mates & Pilots (ILA, AFL-CIO) Signatory Companies

It has been suggested that a possible U.S. negotiating position may be that of "grandfathering" existing maritime programs and giving the Canadians equal access to any future U.S. maritime policies. This proposal is unacceptable. It would undoubtedly have a chilling effect on Congressional initiation and consideration of any necessary changes to existing programs. Our industry would be condemned to a life of stagnation at best. In addition, such a grandfathering scheme would hinder Congressional development of maritime programs to respond to our nation's future commercial and national security requirements.

The Maritime Institute believes that changes in maritime law and policy must be considered carefully by the appropriate committees of the Congress. Decisions crucial to the fate of an entire industry should not be left to our trade negotiators and given to the Congress on a "fast track" authority allowing only a yes or no vote on the entire agreement.

Once again, we believe that maritime issues should be removed from the Free Trade Area negotiations. We urge the Committee to support this position and to take the steps necessary to ensure that our nation's maritime capability is preserved and encouraged to grow.

Sincerely,

C. James Patti
President

CJP:jlg

MARITRANS
Three Parkway
Philadelphia, PA 19102 1364
215-864-1200
Telex: 834 539

August 14, 1987

Hon. Lloyd Bentsen, Chairman
Committee on Finance
United States Senate
SD-205 Dirksen Senate Office Building
Washington, DC 20510

Dear Senator Bentsen:

Maritrans Operating Partners L.P. is responding to the request for public comment on the U.S.-Canada Free Trade Area Negotiations ("FTA Negotiations"). Maritrans is among the largest independent marine transporters of petroleum products in the United States, including strategic cargoes such as jet fuel. It serves the Gulf and East Coasts with tank barges which carry up to 260,000 barrels of cargo. We are based in Philadelphia, Pennsylvania; our stock is listed on the New York Stock Exchange; all of our vessels were built in the United States; and all our deck officers and crew members are U.S. citizens. We provide direct and indirect employment to thousands of individuals. As a carrier which operates almost exclusively in the domestic trades, we are alarmed and dismayed by the position taken by the U.S. Trade Representative (USTR) in the FTA Negotiations with respect to inclusion of U.S. maritime policy and services.

As the U.S.-Canada negotiations of a Free Trade Agreement (FTA) progress, it has become increasingly clear that our nation's maritime policies are at issue. On behalf of the maritime industry, we urge the withdrawal of all maritime-related issues from the negotiating agenda. The suggestion of a "North American Jones Act" is entirely a Canadian initiative, as such an arrangement would benefit only the Canadians. We wish to register our strong opposition to this concept to the Congress, the Administration and to the Canadians. Any discussions with the Canadians of an FTA should not involve U.S. maritime policy.

The protections afforded to the maritime industry by the 1920 Merchant Marine Act should be non-negotiable. Our nation's cabotage laws reserve the coastwise trade for vessels that are American-owned, constructed, crewed and documented in order to ensure our national defense capabilities. The cabotage laws serve two important, distinct national defense objectives: to preserve a national ship building capacity and to provide emergency capability for defense mobilization and carriage of strategic goods. These prime objections of the Jones Act would be lost with qualification of foreign flag vessels for U.S. domestic trade.

The proposal for a "North American Jones Act" comes at a time that would only serve to further depress an already depressed industry. (Despite this, we are providing good service at reasonable prices). The total investment in the Jones Act fleet is premised on almost 200 years of consistent government cabotage policy. To alter this position would be a breach of faith with the U.S. merchant marine of unprecedented proportion. Other maritime nations use their merchant fleets to generate hard currency through predatory (non-compensatory) pricing of merchant marine services. Extension of these practices to the domestic trade would send shock waves through our fleet, destroying the viability of this national asset and those companies which have invested in its future, including the hundreds of thousands of U.S. citizens who earn their livelihood from this business.

Despite assurances by the USTR's office that the FTA would be limited to Canada, other trading partners will seek similar considerations. Under treaties of friendship, commerce and navigation, and under multilateral agreements such as the GATT, these other countries could make compelling legal and diplomatic arguments in favor of such a result. In addition, we believe it maybe possible for vessels of other nations to re-flag in Canada and gain access to U.S. domestic commerce.

An equally disturbing development has been the proposition advanced by the USTR that somehow th U.S. could "grandfather" the Jones Act. This is a "red herring," for there are several pitfalls associated with this proposal. The Jones Act and cabotage are an integral part of the overall U.S. merchant marine policy. Such policy includes more than the Jones Act. There are specialized statutes relating to: transportation of certain cargoes, salvage, foreign tugs, dredging, passenger vessels and incinerator ships. There are decades of judicial and administrative determinations which define the application of these statutes. Intertwined with these statutes are government promotional programs that serve the same end of ensuring the survival of a U.S. merchant marine: Title XI Mortgage Guarantees and Cargo Preference programs, to name a few.

It would be impossible to separate these decisions, collateral statutes and programs from the Jones Act itself. Moreover, it is difficult to envision how one would freeze this entire body of laws and programs and extend to the Canadians the benefits of just those changes which occur after the "grandfather" date. It would become a legal and administrative nightmare. In the meantime, U.S. vessel operators would be completely in the dark about future business planning and investment decisions.

The "grandfathering" plan has more serious flaws: new policies supporting the U.S. merchant marine would become stymied. Every attempt to advance or expand policies for the U.S. merchant marine would instead benefit the Canadian merchant marine. The benefits would accrue disproportionately to the Canadians because of liberalized crewing, citizenship, vessel construction and regulatory requirements, making it likely that any future "benefit" conferred to the U.S. merchant marine becomes a net detriment.

We urge Congress not to paralyze its future consideration and enactment of U.S. maritime policies by tieing them to the inevitable promotion of the Canadian fleet (and perhaps other fleets) at the expense of the U.S. domestic fleet.

To conclude, we recognize that some industries may benefit from an FTA, but this clearly does not include the U.S. merchant marine industry. We do not believe that any trade bargain is worth the future of the U.S. merchant marine. Again, we urge that our nation's maritime policies be removed from the negotiating process.

Sincerely,

John C. Newcomb
Vice President
Maritrans GP Inc.
Managing General Partner

JCN:PFC

Comments of

MARITRANS OPERATING PARTNERS L.P.

on

THE U.S.-CANADA FREE TRADE AREA NEGOTIATIONS

Summary of Comments of

MARITRANS OPERATING PARTNERS L.P.

The U.S. maritime policy and services are not a proper subject for trade negotiations and should be excluded as a discussion subject in the negotiations between the U.S. and Canada on a Free Trade Agreement. This subject is the exclusive jurisdiction of the U.S. Congress.

The Jones Act is only one piece in an ever-evolving mosaic of U.S. laws and regulations that have been developed by Congress and implemented throughout the history of this nation to promote the U.S. merchant marine and to protect our national defense capabilities including defense mobilization and carriage of strategic goods. In light of the nature of this complex and inter-related mosaic, "grandfathering" the existing Jones Act fleet would be impossible. Any "grandfathering" would undermine any future efforts to improve the financial stability of the U.S. domestic fleet, and would result in promotion of the Canadian fleet at the expense of the U.S. fleet and to the eventual demise of the U.S. fleet. No industry can be frozen in time and expect to survive. The maritime industry is currently in a depressed state and any weakening of present or future Jones Act protections would further impair the viability of the industry.

Because of diplomatic and trade relations with our other trading partners, these partners would demand the same concessions if we allow Canada to participate in our coastwise trade.

Maritrans is strongly opposed to this radical development in the FTA and urges the removal of our maritime policy and services from these negotiations.

Hon. Lloyd Bentsen, Chairman
Committee on Finance
United States Senate
SD-205 Dirksen Senate Office Building
Washington, DC 20510

Dear Senator Bentsen:

Maritrans Operating Partners L.P. is responding to the request for public comment on the U.S.-Canada Free Trade Area Negotiations ("FTA Negotiations"). Maritrans is among the largest independent marine transporters of petroleum products in the United States, including strategic cargoes such as jet fuel. It serves the Gulf and East Coasts with tank barges which carry up to 260,000 barrels of cargo. We are based in Philadelphia, Pennsylvania; our stock is listed on the New York Stock Exchange;

all of our vessels were built in the United States; and all our deck officers and crew members are U.S. citizens. We provide direct and indirect employment to thousands of individuals. As a carrier which operates almost exclusively in the domestic trades, we are alarmed and dismayed by the position taken by the U.S. Trade Representative (USTR) in the FTA Negotiations with respect to inclusion of U.S. maritime policy and services.

As the U.S.-Canada negotiations of a Free Trade Agreement (FTA) progress, it has become increasingly clear that our nation's maritime policies are at issue. On behalf of the maritime industry, we urge the withdrawal of all maritime-related issues from the negotiating agenda. The suggestion of a "North American Jones Act" is entirely a Canadian initiative, as such an arrangement would benefit only the Canadians. We wish to register our strong opposition to this concept to the Congress, the Administration and to the Canadians. Any discussions with the Canadians of an FTA should not involve U.S. maritime policy.

The protections afforded to the maritime industry by the 1920 Merchant Marine Act should be non-negotiable. Our nation's cabotage laws reserve the coastwise trade for vessels that are American-owned, constructed, crewed and documented in order to ensure our national defense capabilities. The cabotage laws serve two important, distinct national defense objectives: to preserve a national ship building capacity and to provide emergency capability for defense mobilization and carriage of strategic goods. These prime objections of the Jones Act would be lost with qualification of foreign flag vessels for U.S. domestic trade.

The proposal for a "North American Jones Act" comes at a time that would only serve to further depress an already depressed industry. (Despite this, we are providing good service at reasonable prices). The total investment in the Jones Act fleet is premised on almost 200 years of consistent government cabotage policy. To alter this position would be a breach of faith with the U.S. merchant marine of unprecedented proportion. Other maritime nations use their merchant fleets to generate hard currency through predatory (non-compensatory) pricing of merchant marine services. Extension of these practices to the domestic trade would send shock waves through our fleet, destroying the viability of this national asset and those companies which have invested in its future, including the hundreds of thousands of U.S. citizens who earn their livelihood from this business.

Despite assurances by the USTR's office that the FTA would be limited to Canada, other trading partners will seek similar considerations. Under treaties of friendship, commerce and navigation, and under multilateral agreements such as the GATT, these other countries could make compelling legal and diplomatic arguments in favor of such a result. In addition, we believe it maybe possible for vessels of other nations to re-flag in Canada and gain access to U.S. domestic commerce.

An equally disturbing development has been the proposition advanced by the USTR that somehow th U.S. could "grandfather" the Jones Act. This is a "red herring," for there are several pitfalls associated with this proposal. The Jones Act and cabotage are an integral part of the overall U.S. merchant marine policy. Such policy includes more than the Jones Act. There are specialized statutes relating to: transportation of certain cargoes, salvage, foreign tugs, dredging, passenger vessels and incinerator ships. There are decades of judicial and administrative determinations which define the application of these statutes. Intertwined with these statutes are government promotional programs that serve the same end of ensuring the survival of a U.S. merchant marine: Title XI Mortgage Guarantees and Cargo Preference programs, to name a few.

THE U.S.-CANADA FREE TRADE AREA NEGOTIATIONS

Summary of Comments of

MARITRANS OPERATING PARTNERS L.P.

The U.S. maritime policy and services are not a proper subject for trade negotiations and should be excluded as a discussion subject in the negotiations between the U.S. and Canada on a Free Trade Agreement. This subject is the exclusive jurisdiction of the U.S. Congress.

The Jones Act is only one piece in an ever-evolving mosaic of U.S. laws and regulations that have been developed by Congress and implemented throughout the history of this nation to promote the U.S. merchant marine and to protect our national defense capabilities including defense mobilization and carriage of strategic goods. In light of the nature of this complex and inter-related mosaic, "grandfathering" the existing Jones Act fleet would be impossible. Any "grandfathering" would undermine any future efforts to improve the financial stability of the U.S. domestic fleet, and would result in promotion of the Canadian fleet at the expense of the U.S. fleet and to the eventual demise of the U.S. fleet. No industry can be frozen in time and expect to survive. The maritime industry is currently in a depressed state and any weakening of present or future Jones Act protections would further impair the viability of the industry.

Because of diplomatic and trade relations with our other trading partners, these partners would demand the same concessions if we allow Canada to participate in our coastwise trade.

Maritrans is strongly opposed to this radical development in the FTA and urges the removal of our maritime policy and services from these negotiations.

International Organization of

Masters, Mates & Pilots

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ROBERT J. LOWEN
International President
F. ELWOOD KYSER
International Secretary-Treasurer

August 17, 1987

Senator Lloyd Bentsen, Chairman
Committee on Finance
205 Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. Chairman:

The International Organization of Masters, Mates and Pilots, ILA, AFL-CIO, believes that U.S. maritime policies should not be included in the negotiations to remove tariff and non-tariff trade barriers between the United States and Canada. The probable negative impact on the U.S. merchant marine and the nation's economic and defense security weighs heavily against altering U.S. maritime policies through such trade negotiations.

Existing U.S. maritime policies and statutes are intended to foster the development and growth of an American merchant marine adequate for essential national defense and waterborne commerce. Negotiating away longstanding maritime programs could sound the death knell for our beleaguered industry, an industry already deemed inadequate in terms of sealift capability.

One proposal which is apparently being considered by our U.S. negotiators is a "grandfathering" scheme whereby the Canadians would be granted national treatment with respect to any changes to our current maritime laws. Such a proposal, if implemented, would have consequences just as severe as granting access to present programs. Due to the promotional, economic, regulatory and other advantages enjoyed by the Canadian maritime industry, the American merchant marine could not possibly compete. We would be an industry without a future.

Additionally, such an arrangement would deny the Congress the opportunity to develop maritime programs suitable to meet the future commercial and national security requirements of our nation.

The Masters, Mates and Pilots respectfully urges the Finance Committee to support S. Con. Res. 69, which reaffirms support for the maritime policy of the United States and urges that any consideration of changes in maritime policy or laws be removed from the negotiating agenda. Proposals of this magnitude should be considered by the Congressional committees which have the expertise and responsibility for our maritime policy.

Sincerely,

Captain Robert J. Lowen
International President

RJL:mlp

Comments By

M. S. Wasacz
President
Matson Navigation Company, Inc.

Concerning

U.S.-CANADA FREE TRADE AREA NEGOTIATIONS

Senate Committee on Finance
August 17, 1987

SUMMARY

Section 27 of the Merchant Marine Act of 1920 - generally referred to as the Jones Act - requires that, with limited exceptions, ocean transportation for merchandise moving between two points in the United States must be provided only by vessels built in and documented under the laws of the United States and owned by persons who are citizens of the United States. The U.S. documentation requirement limits crew service on such vessels to United States citizens.

On the other hand, the Canadian cabotage law, while requiring documentation under the Canadian flag, permits the use of foreign-built and foreign-owned vessels which are crewed by any citizen of the British Commonwealth. The Canadian vessels have substantially lower capital and operating costs than U.S-flag Jones Act vessels. Entry of Canadian vessels into United States Jones Act trades would present substantially unequal competition with large, new cargo opportunities for the Canadian vessels and very small new cargo opportunitites for the U.S.-flag vessels.

The North American Jones Act proposed by Canadian negotiators has the potential for irreparable damage to the United States Merchant Marine and the American shipyard base required for its support.

Mr. Chairman and Members of the Finance Committee:

On behalf of Matson Navigation Company, Inc., I appreciate the opportunity to submit comments on the United States-Canada free trade area negotiations. My comments are limited to the Canadian proposal for a North American Jones Act.

Matson operates a fleet of container and container/trailer vessels transporting containerized cargo and automobiles between U.S. Pacific Coast ports and Honolulu in regularly scheduled service. Cargo moving between the Neighbor Islands of Hawaii, Kauai and Maui and U.S. Pacific Coast ports is transshipped at Honolulu between the line-haul vessels and two container barges. Section 27 of the Merchant Marine Act, 1920, commonly known as the Jones Act, requires that all vessels carrying cargo between two points within the United States be U.S.-built, U.S.-registered, U.S.-crewed and U.S.-owned. Since 1970, Matson has invested $365 million in new ships and barges built or rebuilt in United States shipyards.

Matson was very disturbed by reports that during the free trade agreement negotiations the U.S. negotiating team was considering allowing Canadian-flag vessels to fully participate in the U.S. domestic Jones Act trades. In his letter to me of July 21, 1987, U.S. Trade Representative Clayton Yeutter stated the U.S. negotiating position that Canadian-flag vessels could not enter existing Jones Act trades but perhaps would be afforded national treatment with respect to any future expansion of the Jones Act or other U.S. maritime promotional program.

Either course of action would be detrimental to the substantial investment Matson has made in U.S.-built vessels. I strongly urge you and all Members of Congress to soundly reject any agreement which gives Canadian maritime interests the benefit of equal participation in U.S. maritime promotional policies.

Canadian vessel participation in U.S. domestic trades would be unfair to U.S. Jones Act operators. Canadian-flag vessels (1) may be built anywhere in the world (including heavily subsidized shipyards such as those found in Japan), (2) may be crewed by British Commonwealth citizens, and (3) have no Canadian citizen ownership requirement. By contrast, U.S.-flag vessels dedicated to service in the domestic trades (1) must be built in United States shipyards without government subsidy, (2) must be crewed by American seaman, and (3) must be 75 percent owned by U.S. citizens. If a free trade agreement created a situation in which U.S.-built Jones Act vessels would have to compete with Canadian-flag, Japanese-built, Hong Kong crewed, and Greek owned ships, American participation in future Jones Act trades may be foreclosed. The grossly disparate Canadian ground rules could give the Canadians too much of an advantage for American vessels to overcome.

The United States is not alone in reserving its domestic waterborne cargo to ships of its own registry. Virtually every maritime nation in the world restricts its domestic trades to ships of its own national flag. A partial listing includes Argentina, Australia, France, Italy, Japan, Mexico, Spain, Venezuela and West Germany. Of course, Eastern Bloc countries practice similar restrictions. These cabotage laws have been adopted for fundamentally sound nationalistic reasons.

In today's environment of seemingly endless work crisis, the Jones Act is one of the United States' most important statutes for economic and military security. Sealift is still the most cost effective and the only practical method for moving vast tonnages of equipment and supplies overseas to support military forces. America must rely on a capable, strong U.S.-flag merchant fleet to play a vital role in any future conflict.

Recently there have been several U.S. shipyard closings and bankruptcies of major U.S.-flag ocean carriers. The United States now has a sizeable fleet of laid-up, unemployed tankers. The Jones Act now provides U.S. shipyards with their only source of commercial ship construction. The nation is in danger of losing the expertise necessary to build commercial ocean-going ships. As a ship operator in the U.S. domestic trades, Matson is vitally concerned that the United States maintain a commercial shipbuilding base that can build and service our fleet.

The Administration and Congress are actively studying ways to revitalize this sorely beleaguered industry. Giving Canadian vessels equal access to areas of U.S. domestic trade that would otherwise only be available to U.S-built, registered, crewed and owned vessels can only accelerate the current downward spiral of the U.S. Merchant Marine and further complicate the difficult task of revitalizing this essential industry.

Determining the characteristics and timing of future vessel investments already involves very difficult business decisions as to future needs of the trade, national and local economic trends, future vessel technology, and the anticipated level of competition. The fact that U.S. negotiators are even seriously considering opening future U.S. Jones Act trades to Canadian-flag vessel has a negative impact on the industry's willingness to move forward with vessel construction commitments. The U.S. negotiators are creating a more uncertain environment at a time when the United States Government should be doing its utmost to encourage commercial investment in the nation's maritime industry, not make domestic investment more difficult.

I understand that the underlying premise of the proposed U.S.-Canada Free Trade Agreement is that it be mutually beneficial to both sides. Granting Canada equal access to U.S. maritime promotional programs, such as the Jones Act, will purely benefit the Canadians and will do severe harm to the U.S. maritime industry. I urge you to reject any Free Trade Agreement that would accord Canadian-flag ships access to U.S. maritime promotional policies.

STATEMENT OF THE

MAYTAG CORPORATION

REGARDING THE U.S. - CANADA FREE TRADE NEGOTIATIONS

The Maytag Corporation is a leading manufacturer and marketer of a broad line of residential and commercial appliances. These products include such brand names as Maytag, Jenn-Air, Hardwick, Magic Chef, Admiral, Norge and Warwick.

Maytag is headquartered in Newton, Iowa and has facilities located throughout the United States. A leading major appliance exporter to Canada, Maytag's family of companies sells these products in Canada: clothes washers, clothes dryers, dishwashers, refrigerators, kitchen ovens and ranges, and food waste disposers. These products are sold throughout Canada by more than 1,000 dealers and distributors.

The Maytag family of companies strongly supports a free trade agreement between the United States and Canada and is a member of the American Coalition for Trade Expansion with Canada. A free trade agreement would greatly stimulate exports of U.S.-manufactured appliances to Canada. The Canadian market for appliances has demonstrated that it has substantial potential for Maytag and other U.S. appliance manufacturers. Since general economic levels and consumer lifestyle closely parallel those in the United States, the Canadian market is ideally suited for U.S. appliance exports. For many years, Maytag appliances have met the needs of Canadian consumers and have been very well accepted, despite the high level of duties imposed by Canada on these products.

The excessively high level of duties on imports of U.S.-manufactured appliances has been a substantial impediment to the growth of Maytag's exports. Current 1987 duty rates assessed by Canada on major appliances range between 12.5% and 14.1% (Attachment A). It should be noted that these duty rates are three to four times the level of duties assessed on appliances imported into the United States.

Further, the outmoded nature of this tariff structure is apparent in particular product areas such as gas ranges. Even though there is no production of gas ranges within Canada, the Canadian government imposes a 12.5% duty on imported gas ranges.

Significant non-tariff barrier to exports of U.S.-manufactured appliances also exist in Canada. These include, but are not limited to, industry and government-generated product standards and testing requirements.

The elimination - or at least the equalization of duties imposed by each country on appliance imports - would significantly increase exports of U.S.-manufactured appliances. In the case of Maytag's products, such action could stimulate total export sales to Canada by as much as 15%-20% annually. This magnitude of growth would require increased production at Maytag's principal manufacturing facilities which would, in turn, have a beneficial effect upon employment at these locations.

Further, the increased production at our manufacturing facilities would stimulate outside purchasing requirements for raw materials such as steel, rubber and plastic parts, and sourced components such as electric materials. These purchases would also have a positive impact upon employment.

In terms of the impact upon U.S. consumers, the additional volume of export sales to Canada would create certain efficiencies of scale at Maytag's manufacturing operations, thus permitting lower costs to be passed on to U.S. purchasers of appliances. It is also clear that Canadian consumers would benefit as well since the elimination of high duties would be immediately reflected in lower prices for Maytag appliances. In fact, Canadian consumers would gain significantly from the removal of those duties which are estimated to have cost Canadian consumers (in 1986) an amount exceeding $47 million.

Three major appliance manufacturers in Canada account for 80% of Canadian factory appliance shipments. These companies are controlled by U.S. parent companies, each of which has substantial production facilities in both countries. Annual imports of major appliances into Canada have represented only about 12% of total Canadian appliance sales since 1980. Elimination of the excessive Canadian duties would permit U.S.-based appliance manufacturers like Maytag to compete in Canada on a more equitable basis.

Maytag is hopeful that the current bilateral negotiations will lead to the dismantling of a counter-productive tariff structure that has inhibited appliance exports to Canada. For this reason, Maytag strongly recommends that both U.S. and Canadian duties on major appliances be phased out over a two-year period and that in the case of products where there is no domestic production that these tariffs be removed immediately.

In summation, Maytag strongly supports the proposal to establish free trade between the U.S. and Canada. Such an agreement, we believe, would dramatically stimulate exports of U.S.-manufactured appliances to Canada, increase U.S. employment, and benefit both U.S. and Canadian consumers.

Attachment A

COMPARISON OF U.S. AND CANADIAN DUTIES ON MAJOR APPLIANCES

Appliance	U.S. Duty	Canadian Duty
Gas Ranges	4.2%	12.6%
Electric Ranges	0.0%	12.6%
Microwave Ovens	4.0%	12.6%
Refrigerators and Freezers	2.9%	12.6%
Dishwashers	3.6%	14.1%
Clothes Washer	2.8%	12.5%
Clothes Dryer	5.1%	12.5%
Combination Washer/Dryer	5.1%	12.5%

COMMENTS ON THE U.S.-CANADA FREE TRADE AREA NEGOTIATIONS

Submitted to the U.S. Senate Committee on Finance by:

THE METROPOLITAN LIFE INSURANCE COMPANY

SUMMARY OF COMMENTS OF METROPOLITAN LIFE INSURANCE COMPANY

The Metropolitan Life Insurance Company, headquartered in New York, has been active in Canada's life insurance market for over a century. The company strongly supports the general goal of a free trade agreement between the U.S. and Canada, so long as it deals effectively with trade in financial services, as well as with traditional issues concerning trade in goods.

The primary U.S. objective in the financial services area should be to obtain "national treatment" for U.S. firms in Canada. In particular, the U.S. should seek elimination of Canada's "10/25 rule", which precludes foreign, but not Canadian, investors from acquiring control of Canadian financial firms. No similar rule restricts Canadian investors in the United States. The"10/25 rule" jeopardizes the business prospects of U.S. life insurers in Canada by limiting their ability to diversify. This is a crucial and discriminatory restriction at a time when the worldwide trend is toward financial conglomeration and diversification.

Any free trade agreement that does not obtain national treatment for U.S. life insurers should be rejected by Congress as incomplete. The U.S. financial services industry is a vital, competitive sector of increasing importance to the U.S. economy, and its concerns should be satisfied in any final pact with Canada.

INTRODUCTION

This paper outlines the views of the Metropolitan Life Insurance Company with regard to the free trade negotiations between the United States and Canada. Metropolitan Life is the world's second largest life insurance company, and together with its subsidiaries has over $100 billion in assets. The company is headquartered in New York, and has operated in Canada since 1872, where it employs approximately 3,000 people and is the eighth largest life insurer in terms of premiums received in Canada.

Metropolitan Life fully endorses the goal of achieving a fair and balanced free trade agreement between the U.S. and Canada, and is a strong supporter of the negotiations now under way. However, the company will only support a final agreement between the two countries that effectively provides U.S. insurance companies "national treatment" under Canadian law. Simply put, the agreement should ensure that U.S. insurance firms operating in Canada are treated for regulatory purposes like Canadian firms. This will require certain changes in Canadian regulations that currently discriminate against U.S. insurers, including particularly the "10/25 rule" (discussed later in this paper) that imposes special limits on the ability of U.S. and other foreign insurers to diversify.

A free trade agreement that provides for national treatment on both sides of the border would be beneficial to both countries. However, an agreement that did not establish national treatment for U.S. insurers in Canada would not be fair or in the long term economic interest of the United States, and should be opposed by the Congress. In particular, Congress should reject any agreement that sanctions the continuation of Canada's discriminatory 10/25 rule, or other unfair restrictions on diversification by U.S. insurers.

LIFE INSURANCE TRADE STRONGLY FAVORS CANADA

There is extensive "trade" in life insurance services between the U.S. and Canada. Despite Canada's relatively small economy, Canada's life insurance industry is strong and has had great success in the U.S. market. In 1985, Canadian companies had over $200 billion of life insurance in force in the United States. The same year, Canadian life insurers received approximately 32% of their premium income, or $4.5 billion, from activities in this country.

U.S. companies have had less success in penetrating the Canadian market. In 1985, U.S. life insurers had less than half as much insurance in force in Canada as Canadians had in the U.S., and derived only $1.5 billion in premium income from these policies. The strength of Canada's insurers in their home market is further evidenced by the fact that the market share of foreign life insurers in Canada actually declined from 23% to 15% between 1975 and 1985.

CANADA DENIES U.S. LIFE INSURERS NATIONAL TREATMENT

Canadian insurers enjoy essentially free access to the U.S. market on the same terms as their U.S. competition. By contrast, U.S. life insurance firms are denied national treatment in Canada. They are discriminated against in several ways under current provincial and federal laws.

The most important discriminatory effect of Canadian law is that it strictly limits the ability of U.S. life insurers to diversify into other financial service activities. This limitation is imposed by the so-called "10/25 rule", which bars any single U.S. or other foreign investor from acquiring more than 10% of the shares of stock of most Canadian insurance, bank, trust and loan companies, and bars such investors collectively from buying more than 25% of the shares of such an institution. This rule precludes U.S. and other foreign controlled companies -- including U.S. life insurers -- from buying existing Canadian companies in these sectors. Its impact on U.S. life insurers is to close off the most effective method of diversifying into other financial service businesses.

Canadian firms do not face the same restrictions. Under current law, they are more free to diversify, and their diversification abilities will be even greater under new financial services policies announced last December by the Canadian federal government and Ontario's provincial government.

CANADIAN DISCRIMINATION SERIOUSLY DISADVANTAGES U.S. FIRMS

Canada's discriminatory diversification rules place U.S. insurers at a serious disadvantage. Trends in world financial markets toward conglomeration, the increasing sophistication of investors, and the need to employ capital as effectively as possible all require financial companies to offer a wide range of services. Accordingly, many U.S. insurers believe that to prosper in Canada over the long run, they must diversify into other financial services. The only practical way for foreign insurers to diversify is through acquisition -- precisely the method that is blocked by the 10/25 rule. The alternative of building a bank or trust business *de novo* incurs greater costs, risks and delays.

Canadian financial institutions have already begun to diversify. Several large Canadian financial services conglomerates have been created, including the Power Corporation, Brascan, Trilon Financial Corporation and Laurentian Group. In addition to controlling several of the largest Canadian life insurers, these conglomerates have extensive interests in trust and loan companies, property and casualty insurance companies, and securities firms. This great variety of activities permits these firms to provide a broad range of services to customers, accumulate large amounts of capital and balance risks of one activity with those of others.

PROPOSED CANADIAN LEGISLATION WILL AGGRAVATE THE PROBLEM

In legislation recently presented to Parliament, Canada's federal government implicitly recognized the importance of diversification by proposing to relax the already generous rules under which Canadian insurance firms and other financial institutions may diversify. These proposals would not extend the same powers to diversify to United States (and other foreign) controlled firms. Foreign insurers would still be prevented by the "10/25 rule" from acquiring control of Canadian firms in other financial fields (except in the securities area), and would continue to be cut off from the only effective means of rapid diversification. Thus, under the new legislation, U.S. firms will be placed at an even greater disadvantage relative to their less-constrained Canadian competitors.

CONCLUSION: AN AGREEMENT MUST PROVIDE NATIONAL TREATMENT

Metropolitan Life believes that a crucial objective of the free trade negotiations must be to persuade Canada to eliminate those aspects of current law and the proposed financial services reforms that discriminate against and deny national treatment to U.S. life insurance companies. It is particularly important to convince Canada to eliminate the 10/25 rule and to grant national treatment in the area of restrictions on diversification.

Metropolitan Life would strongly support an agreement that obtained national treatment for U.S. insurers in Canada. Such an agreement would permit one of the United States' most vital and creative industries -- the financial services sector -- to compete in Canada on fair terms. There is every reason to believe that under such conditions, U.S. financial institutions would prosper in Canada.

However, without such changes in Canadian law, U.S. life insurance companies and other financial services firms will be left further behind in the protected Canadian market, while the Canadian firms will exploit the powers and flexibility available to them alone under Canada's newly-relaxed regulatory policies. Indeed, unless the 10/25 rule is eliminated and the principle of national treatment implemented, U.S. life insurers' ability to compete and to survive in Canada's markets will be cast in doubt.

A "free trade" agreement which permits such a result would not be in the interest of the United States or in harmony with the concept of free trade. Such an agreement would represent a missed opportunity to establish fair rules of trade for one of this country's most competitive industries, and should be rejected by Congress.

Monsanto

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August 17, 1987

Ms. Laura Wilcox
Hearing Administrator
Committee on Finance
Room SD-205
United States Senate
Washington, D.C. 20510

Dear Ms. Wilcox:

This letter is in response to the committee's request for public comment on the U.S. - Canada free trade area negotiations.

Monsanto Company is a producer of industrial and agricultural chemical products, pharmaceuticals, low calorie sweeteners, industrial process controls, man-made fibers, plastics and electronic materials. With 1986 sales amounting to $6.88 billion, Monsanto does business in more than 100 countries and employs 33,700 people in the United States and 52,000 worldwide. Based on 1986 exports of $873 million, Monsanto is one of the United States' top 25 exporters.

Negotiations between the U.S. and Canada on a free trade area have Monsanto's support. However, the objective of these negotiations must be a comprehensive agreement. It cannot result in tariff cuts alone. For example, an agreement needs to provide for improved intellectual property rights in Canada, including elimination of compulsory licensing.

In addition, an agreement should not abrogate or undermine existing U. S. trade laws, especially those having to do with subsidies. Also, effective rules of origin will be required to ensure that third countries do not unfairly take advantage of an agreement by transshipping through Canada to get around otherwise applicable U.S. tariffs.

These and other observations are set forth with additional detail in comments submitted separately by the Chemical Manufacturers Association. Monsanto endorses those comments and hopes the committee will give them due consideration.

Sincerely,

Stephen E. Littlejohn

Stephen E. Littlejohn
Director, Government Affairs &
Public Relations, International

POSITION PAPER
OF THE
MOTOR AND EQUIPMENT MANUFACTURERS ASSOCIATION
ON THE
AUTO PACT
AND OTHER CANADIAN FREE TRADE NEGOTIATIONS

EXECUTIVE SUMMARY

Canada is the principle source of U.S. motor vehicle parts and accessories imports, leading Japan by more than $3 billion. More than 85% of U.S. motor vehicle parts imports from Canada fall under The Automotive Products Trade Act (APTA) of 1965.

The auto pact stands clearly as the centerpiece of U.S.-Canadian trade.

Since 1965, however, the composition and operation of the North American market has changed considerably. The most significant development has been the success of Japanese car manufacturers in the North American market, a pace that has accelerated in recent years, and is likely to reach its peak by the turn of the decade.

North American manufacturers face increasing competition from a growing array of foreign companies, many from countries openly committed to securing foreign markets for their products. In this regard, it is MEMA's position that the goal of the U.S. government during the U.S.-Canada free trade negotiations should be the development of a trading partnership that will enhance the international competitiveness of U.S. companies.

In order to achieve the general objective, a common rule of preference should be employed under the U.S.-Canada free trade area. A strong rule of preference would ensure that only articles actually manufactured, rather than simply assembled or modified, in North America receive duty-free treatment. MEMA is recommending that the FTA rule of preference require direct shipment of the imported article from Canada and that the cost or value of materials plus the cost of direct processing operations in North America equal or exceed 80% of the appraised value of the imported article. In the case of motor vehicle assembly, this rule would also guard against duty-free trade benefits being accorded to companies that gain "content" primarily through domestic assembly activities while importing the engines, drive trains and other major components they require. The current U.S. rule of preference requiring a "50% North American content" level based upon MFN definitions is inadequate.

With respect to the safeguards currently contained in the auto pact, MEMA recommends that the U.S. suggest the "North Americanization" of the safeguards. In effect, this would require meeting a North American value-added requirement that would include a specific percentage of Canadian content, while providing North American auto makers with greater flexibility in meeting the APTA requirements.

With respect to the Canadian duty remission program, MEMA can find no evidence that any investment or sourcing decisions have been significantly affected by the remission programs. Given the evidence, the U.S. must not let their existance preclude the successful negotiation of a FTA.

MEMA also takes the position that any duty-free trade agreement in aftermarket products, or replacement parts, should be negotiated seperately from a revision of the auto pact.

POSITION PAPER
ON
U.S.-CANADA TRADE
AND THE
MOTOR VEHICLE PRODUCTS INDUSTRY

Prepared by

Motor & Equipment Manufacturers Association

Introduction

Canada ranks by far as the single most important trading partner of the U.S. motor vehicle products industry. Canada is the principal source of U.S. motor vehicle parts and accessories imports, leading Japan by more than $3 billion.[1] In 1986, the United States imported more than $9.4 billion in parts and accessories while exporting some $5.6 billion to Canada. Until 1985, America had run an unbroken string of trade surpluses with Canada. In 1985, the United States posted a $320 million automotive trade deficit and in 1986, the deficit grew to $839 million.[1]

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[1] This figure assumes motor vehicle products imports from Japan, including into Free Trade Zones, of about $6.1 billion.

The Auto Pact

Interestingly, more than 85 percent of U.S. motor vehicle parts imports from Canada fall under the Automotive Products Trade Act (APTA) of 1965, also known as the U.S.-Canadian Auto Pact. Given the importance to Canada of its automotive trade, the Auto Pact stands clearly as the centerpiece of U.S.-Canadian trade. Since its establishment, the APTA has overseen the integration and rationalization of North American original equipment manufacturing to an unprecedented degree.

During the course of the Pact's existence, however, the composition and operation of the North American market has changed considerably. Clearly, the most significant development has been the success of Japanese car manufacturers in profiting from the North American market, including both a consistent 21-25 percent new car market share and their establishment of North American manufacturing subsidiaries. The advances of the car makers have been paralleled to a significant degree by Japanese heavy vehicle makers and parts suppliers. The pace of change has accelerated in recent years and will likely reach its peak by the turn of the decade.

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[1] The Canadians, using a separate basis for assessing U.S.-Canadian parts trade, arrive at a far different result. The Canadians claim that the United states posts a multi-billion dollar trade surplus each year. We believe this results from a broader range of tariff items included as auto parts.

In spite of recent developments, the Auto Pact has not undergone a serious review since 1969. Fortunately, the decision by the Governments of Canada and the United States to pursue an integrated Free Trade Area (FTA) provides an appropriate opportunity to revisit and revise portions of the APTA in light of the new character of North American automotive production. Moreover, the FTA negotiations provides a chance to examine the North American automotive industry as it relates to international competition for automotive markets.

Therefore, this paper is presented to contribute the views of American motor vehicle parts, accessories, and service equipment manufacturers to the national debate on free trade with Canada as it concerns motor vehicle products.

General Objectives

The goal of the U.S. Government during the U.S.-Canada Free Trade Negotiations should be the development of a trading partnership between the United States and Canada that will enhance the international competitiveness of U.S. companies. North American manufacturers face increasing competition from a growing array of foreign companies, many from countries openly committed to securing foreign markets for their products. In many cases, these foreign competitors benefit from advantages unavailable to American companies that run counter to established trade laws. Therefore, U.S. negotiators must ensure that the benefits of the U.S.-Canada Free Trade Area accrue primarily to companies fully integrated into the North American economy. The advantages of this North American arrangement should not significantly benefit foreign competitors attempting to increase their penetration of this market.

Rule of Preference

In order to achieve the general objective, a common rule of preference should be employed under the U.S.-Canada Free Trade Area. This common rule would eliminate current frictions and misunderstandings caused by the use of separate criteria by the U.S. and Canada. In addition, a strong rule of preference would ensure that only articles actually manufactured, rather than simply assembled or modified, in North America receive duty-free treatment. This would serve to enhance the competitiveness of the companies that support the greatest number of North American jobs. It is recommended that the FTA rule of preference require direct shipment of the imported article from Canada and that the cost or value of materials plus the cost of direct processing operations in North American equal or exceed 80 percent of the appraised value of the imported article.

This rule of preference would promote the competitiveness of companies that maximize their use of North American inputs. In the case of motor vehicle assembly, the rule would also guard against duty-free trade benefits being accorded to companies that gain "content" primarily through domestic assembly activities while importing the engines, drive trains and other major components they require. In this regard, the current U.S. rule of preference requiring a "50 percent North American content" level based upon MFN definitions is inadequate.

Safeguards

Motor vehicle producers operating under the Auto Pact are currently subject to certain performance requirements proposed by the Canadian government and agreed to by the individual automakers. Incorporated in the Letters of Undertaking (LOU), the automakers agreed to maintain a 60 percent Canadian Value-Added (CVA) ratio for passenger cars sold in Canada (50 percent for heavy-duty trucks) and to assemble one vehicle in Canada for every vehicle sold in Canada.

The tremendous growth of U.S.-Canadian trade has revolved around the APTA, including these performance requirements. While the safeguards may have resulted in certain inefficiencies in the structure and operations of the North American industry, the cost has been far outweighed by the benefits of market integration. To totally abandon the safeguards would likely expose many companies to competition from new entrants to the market unburdened by the former requirements. Therefore, it is recommended that the United States suggest the "North Americanization" of the safeguards. In effect, this would require meeting a North American Value-Added requirement that would include a specific percentage of Canadian content.[1] This revision would provide North American automakers with greater flexibility in meeting the APTA requirements without penalizing companies because of their current operations.

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[1] The North American Value-Added requirement would be set according to the definition of value-added used. Using the rule of preference proposed in this paper, the level would be 80 percent. Under the current CVA definition, the figure might be 70 percent.

The Canadian portion of this NAVA proposal would be set to maintain Canada's current share of the North American OE market.

It is further recommended that a credit and debit system be established for meeting the sales-to-production ratio requirements. Under this system, a vehicle manufacturer could carry credits forward or back two years to offset surges in sales during the current year.

The Canadian Duty Remission Program

Since as far back as the 1920's Canada has employed various forms of duty remissions to promote specific government objectives. The remissions on japanese automobile imports date back to May 6, 1975 when Nissan, Suburu, and Toyota were granted remission orders. However, the benefits accrued under these orders have never been that extensive for Japanese importers. During Canadian FY 1984, for example, Toyota, Nissan, Honda, and Suburu, *combined*, received only $94,569.00 (Canadian) under the program. In addition, there is no evidence that any investment or sourcing decisions have been significantly affected by the remission programs. Given the relative unimportance of duty remissions, the United States must not let their existence preclude the successful negotiation of an FTA.

Duty-Free Trade in Replacement Parts

Free trade in aftermarket products should be negotiated separately from a revision of the Auto Pact. The APTA is designed solely for original equipment trade and provides certain benefits to the vehicle assemblers that should not be extended under an aftermarket agreement. The rules of preference discussed earlier, however, should apply equally to this aftermarket agreement.

MOTOR VEHICLE MANUFACTURERS ASSOCIATION
of the United States, Inc.

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TLX NO. 705211 AUTOMAKERS WSH. UD

DONALD E. PETERSEN, *Chairman*
THOMAS H. HANNA, *President and Chief Executive Officer*

August 17, 1987

The Senate Committee on Finance
United States Senate
Washington, D. C. 20510

Subject: Comments on a U.S.-Canada Free Trade Agreement

The governments of the United States and Canada are currently negotiating with the objective of structuring a comprehensive Free Trade Agreement (FTA) between the two nations. These negotiations have now reached a critical point and one of the most serious issues under discussion will be the treatment of the motor vehicle industry in any new agreement. MVMA wishes to place the views of the motor vehicle manufacturing industry clearly on record and offer our recommendations to the Congress on how U.S. national interests may be advanced under a new agreement.

Unlike other industry sectors, most North American motor vehicle manufacturers currently operate within a sectoral free trade agreement known as the Automotive Products Trade Agreement (APTA). For more than two decades, this agreement has been the competitive structure within which the North American vehicle manufacturing industry has developed, and has provided certain tariff benefits intended to enhance the competitiveness of companies which have participated. Trade under the APTA now exceeds one third of all U.S.-Canada trade, and we believe that the projected benefits of any new agreement with Canada must be measured against the results attained from operating under the existing agreement.

MVMA recognizes that criticisms have been raised regarding the status of automotive trade with Canada, with some arguing that the trade relationship between the two countries in this industry is fundamentally flawed or imbalanced. Much of the criticism has been based on faulty statistical data showing a significant deficit for the U.S. in auto parts. The adjusted data now show a significant U.S. surplus with Canada in auto parts trade. The Association has encouraged the U.S. to seek improvements in the operation of the AutoPact and has offered specific recommendations to Congress and the Administration on how to encourage the further rationalization of the industry in North America with fair and consistent rules for all.

However, we wish to suggest that, before responding to calls for a dismantlement and rejection of the agreement which has completely integrated the motor vehicle industry on the North American continent, Congress carefully review the unique development of this $45 billion annual trade, and consider carefully the competitive impact on U.S. companies of any major changes proposed.

MEMBERS:

AMERICAN MOTORS CORPORATION • CHRYSLER CORPORATION • FORD MOTOR COMPANY • GENERAL MOTORS CORPORATION
HONDA OF AMERICA MFG., INC. • M.A.N. TRUCK & BUS CORPORATION • NAVISTAR INTERNATIONAL TRANSPORTATION CORP.
PACCAR Inc • VOLKSWAGEN OF AMERICA, INC. • VOLVO NORTH AMERICA CORPORATION

Motor vehicles and parts exports to Canada are the single largest U.S. export to any country in the world ($21 billion), exceeding total U.S. exports to every member of the European Economic Community, and remain one of the strongest and most reliable performers of all U.S. exports. MVMA believes the significance of this solid success should not be lost in any debate concerning U.S. national interests in the FTA negotiations.

U.S. negotiators are now considering the establishment of new rules governing a free trade agreement which would apply to all products traded across the U.S.-Canada border. Given the competitive impact that such changes could have on North American vehicle manufacturers whose business decisions have been shaped for over two decades by different rules under a separate trade agreement, we wish to offer the following comments:

1. MVMA believes that in formulating the basis for eligibility for duty free trade in a free trade agreement a 50% standard of preference for this industry, based on a "cost of national materials and direct cost of processing" definition is necessary. Such a standard would ensure that the benefits of a new free trade agreement would be directed to manufacturers with a substantial and proven commitment to North American investment, production and employment. This recommendation, however, is predicated on agreement that the standards would be administered on an aggregate basis, in which automotive products would be certified to meet the standard on a "class" or "category" basis, rather than product by product.

2. U.S. negotiators are currently considering changes in a series of trade programs which directly affect operations in this industry. MVMA believes the United States government should not, in any case, be a party to the elimination of existing trade arrangements on which MVMA's member companies have structured long-term competitive strategies. These include, most importantly, the multilateral application of the APTA by Canada, but also the use of duty drawback and the continued operation of U.S. Foreign Trade Zones. The loss of these programs would compromise the industry's international competitiveness and be viewed as a significant step back from the status quo.

Finally, MVMA wishes to emphasize that it is anxious to continue working with the Administration and the Congress to seek a successful conclusion to these negotiations, and the establishment of a historic new trade agreement with Canada that enhances the competitiveness of U.S. industries and benefits the consumers of both nations.

Very truly yours,

Thomas H Hanna

Thomas H. Hanna

THH/bb

STATEMENT OF THE NATIONAL ASSOCIATION OF HOME BUILDERS
BEFORE THE COMMITTEE ON FINANCE
ON US-CANADA FREE TRADE AREA NEGOTIATIONS

On behalf of the 147,000 members of the National Association of Home Builders, I am writing to express our views on the U.S. - Canada free trade negotiations. We are supportive of the broadest possible trade agreement with Canada aimed at removing trade barriers between the two countries.

NAHB's primary interest is in long-term economic growth for our domestic economy. More and more, domestic growth is becoming internationally interdependent. Retaining, as well as increasing, American jobs will strengthen the construction industry along with other businesses. We strongly believe that opening trade free zones between the U.S. and Canada will be mutually beneficial to our two countries. As home builders, we have long been users of Canadian softwood lumber. As you are aware, the recent U.S. - Canadian agreement on Canadian softwood imports removed an early obstacle in the bilateral agreements. The negotiations were difficult for both sides and, at one point, threatened to stall further discussions on free trade. Fortunately, an agreement was reached just before a Commerce Department decision on a countervailing duty suit.

A bilateral agreement would enable the U.S. and Canada to manage trade disputes without the risk of increasing trade conflicts in the future. During the International Trade Commission and Department of Commerce hearings on countervailing duties, home builders were left with a great deal of uncertainty as to how to plan their lumber purchases and whether or not the disagreements would have an effect on other commerce across our Northern border. The very real possibilities of decreasing lumber supplies and increased costs were quite disruptive to many business plans that depended on affordable timber products. A similar situation occurred with the cedar single and shake determination issued under Section 201 of the Trade Act of 1974. A bilateral trade pact would clarify trade rules in order to avoid the highly politicized and publicized disputes such as the softwood and the shingle and shake cases.

Canada is our largest trading partner. Last year the flow of goods between the two countries was $124.5 billion. The potential for U.S. industries in the Canadian market is far beyond current investments. In 1986, 30% of all U.S. foreign investment was in Canada and Canada was the fourth largest contributor of capital to the U.S. Because similar political, economic and cultural values exist in both countries, and because of our shared border, a natural trade alliance between countries could be further developed.

Broader multilateral cooperation in trade and the establishment of new international rules governing services and investment are needed in the future. If any two countries can reach agreements in these areas, there is reason to believe Canada and the U.S. are among the most compatible. With these same issues being discussed at the GATT negotiations in Geneva, it would bode well for U.S. interests in those talks to be able to reach an agreement with Canada on similar issues. Failure to work out these problems with a friendly neighbor would give rise to questions of U.S. credibility within the GATT round of talks.

Thank you for the opportunity to present our views.

NAHM National
Association
of Hosiery
Manufacturers

447 S. SHARON AMITY RD. • CHARLOTTE, NORTH CAROLINA 28211 • TELEPHONE: (704) 365-0913

NAHM Position Statement On Negotiation Of Free Trade Arrangements With Individual Countries

The 98th Congress gave the Administration the authority to enter into negotiations with Israel to establish a free trade arrangement between our two countries. It also granted the Administration the authority to negotiate similar arrangements with other countries. The only additional approval that is needed for such negotiations is that either the Senate Finance Committee or the House Ways & Means Committee has the authority to reject the initiation of such negotiations. If they do not veto the initiation of such negotiations, Congress, as a whole, has to approve or disapprove by a majority vote, up or down with no amendments, the final negotiated agreement when negotiations are completed.

Currently, the United States is a party to the General Agreement on Tariffs and Trade (GATT), an international trade agreement designed to liberalize world trade by eliminating tariff and nontariff barriers through multi-lateral negotiations requiring reciprocity. Additionally, the United States is also a party to the Multi-Fiber Arrangement (MFA), an international trade agreement designed to liberalize world trade in textile and apparel items, while recognizing the sensitive nature of trade in these products, and designed to provide relief from market disruption to the domestic industries in the importing countries, while ensuring access to international trade markets by the exporting countries. And, working within the framework of both rights and obligations under these two international agreements, numerous bilateral trade agreements have been negotiated by the United States with individual foreign governments.

It is felt that increasing access to international markets and safeguards have been addressed in the system of international trade agreements, even with their inadequacies in many areas. It is also felt that the unilateral negotiation by the United States of individual free trade arrangements with selected countries runs the risk of upsetting the delicate balance of safeguards and transitional periods allowed in our current international agreements. This is particularly true for sensitive products like textiles and apparel, including hosiery.

Therefore, the National Association of Hosiery Manufacturers opposes the negotiation and culmination of free trade arrangements between the U.S. and other foreign governments on a bilateral basis, which include hosiery.

Adopted: April 25, 1985
By: NAHM Board of Directors

NAM
National Association
of Manufacturers

LAWRENCE A. FOX
Vice President
International Economic Affairs Department

August 11, 1987

The Honorable Lloyd Bentsen
Chairman
Committee on Finance
United States Senate
205 Dirksen Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

This is in response to your request for private sector comments on the proposed free trade agreement now being negotiated between the United States and Canada.

As you know, I testified before the Finance Committee on April 11, 1986 on behalf of the National Association of Manufacturers and favored the negotiation of a comprehensive agreement and the use of the special "fast track" authority for that purpose. The Finance Committee subsequently approved negotiations on this basis. It is our understanding that the draft agreement, still subject to Congressional review but signed by both governments, will be notified or presented to Congress by October 5, 1987 if agreement has been reached. Presumably changes will be possible after October 5 but are to be made only if absolutely necessary and presumably with some prospect of agreement by Canada. Since no text is now available, our comments at this time are necessarily preliminary, general in nature, and subject to change on the basis of the actual terms of the agreement.

NAM has had a working group on the U.S.-Canada negotiations under the chairmanship of Mr. Tom Barrett, President of the Goodyear Tire and Rubber Company. This working group has been guided by an NAM Board of Directors policy statement, dated February 7, 1986, a copy of which is attached. This statement calls for support of an agreement provided it advances U.S. economic interests, and calls for an assessment by the U.S. Trade Representative in this regard at the time the agreement is submitted to the Congress.

NAM recognizes that the free-trade negotiations require give and take on both sides. Therefore, we do not express views at this time that are to be viewed as "final positions" or "cake-it or leave-it" in nature. We favor the following:

1. Tariff reductions -- elimination of most, if not all, tariffs to be achieved over a predetermined period of time. Implementation by the U.S. and Canada should be step by step and full implementation should be simultaneous.

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Suite 1500 - North Lobby
Washington, DC 20004-1703
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2. Reduction of subsidies -- elimination of trade-distorting subsidies at the federal and provincial levels to the extent practicable and reduction of subsidies that impact trade.

3. Non-tariff barriers -- reduction or elimination of federal and provincial non-tariff barriers, including government procurement restrictions.

4. Enhanced protection for intellectual property rights -- for example, elimination by Canada of compulsory licensing of pharmaceutical production subject to U.S. patent protection, either as separate Canadian legislation (as promised by Canada) or as part of the agreement. Guidelines for a GATT code on intellectual property rights should also be sought.

5. Investment controls -- elimination or reduction by Canada of registration and control of U.S. investments in Canada.

6. Exchange rate -- agreement to consult, as necessary, regarding the impact of the exchange rate between the U.S. and Canadian dollar on trade between the two countries.

7. Disputes settlement -- an effective means for more expeditious settlement of disputes between the two countries concerning, trade, investment, and other economic issues covered by the agreement.

We hope and expect that the objectives set out above, all of which have been endorsed by our Board of Directors, can be achieved, if not totally at least in major part. If an agreement is negotiated, we will review it in the light of these objectives and will inform the Congress of our support for the agreement or if we have any reservations.

We appreciate the opportunity you have provided for us to express our views at this time.

Sincerely,

Lawrence Fox

Lawrence A. Fox
Vice President, International
Economic Affairs

LAF/yap
Attachment

NAM

ADOPTED BY NAM BOARD OF DIRECTORS
FEBRUARY 7, 1986

NAM STATEMENT ON U.S.-CANADA TRADE

The National Association of Manufacturers appreciates that American economic relations with Canada are different in several important respects from our economic relations with other countries. Canada is America's largest foreign customer, our principal foreign supplier, and the recipient of more U.S. investment than any other country. Because it is spread across a continent, U.S.-Canadian trade is as much a series of regional phenomena as it is a relationship between two separate nations.

The very closeness of our economic cooperation has created a situation in which government interference with the markets of the two countries can be a greater cause for concern for both American and Canadian businesses than in other economic relationships.

For these reasons and because of the potential for building on the existing high level of business cooperation between our two countries, the National Association of Manufacturers supports the proposal for U.S.-Canadian bilateral trade negotiations.

Any agreement resulting from these negotiations should advance the economic interests of American industry. The opportunities to do so are numerous. They include tariff reductions, meaningful reductions in Canadian federal and provincial subsidies, reductions in Canadian federal and provincial non-tariff barriers, enhanced protection for intellectual property rights, and agreed limits over the Canadian government's ability to restrict and/or control U.S. investment in Canada. In addition, an effective and expedited disputes settlement procedure should be obtained, as well as an agreed procedure for consultations regarding the exchange rate between the Canadian and U.S. dollar so that trade distortions arising from this cause can be resolved. The NAM believes that success in these areas is likely only if the U.S. Government accords significant weight to the advice it receives from the U.S. private sector in the course of the negotiations. If these goals are not substantially achieved, NAM will not be able to support a new trade agreement with Canada.

Because of the importance of securing an agreement that advances U.S. economic interests, the U.S. Trade Representative should include as part of the Administration's explanation of the agreement a clear statement of the agreement's expected economic impact on U.S. interests when the time comes for an agreement to be submitted to the Congress.

NAM believes that the resolution of existing disputes between the United States and Canada should be given a high priority. The sooner these matters can be cleared from the U.S.-Canadian agenda of commercial issues, the greater the likelihood that a trade enhancement agreement benefical to both countries can be negotiated.

In the hope that such an accord can be achieved, the National Association of Manufacturers urges the Administration and the Congress to move forward toward a new framework for the U.S.-Canadian economic relationship.

-NAM-

COMMENTS OF THE NATIONAL ASSOCIATION OF PRINTING INK MANUFACTURERS ON THE CURRENT U.S. - CANADA FREE TRADE AREA NEGOTIATIONS

SUMMARY

The National Association of Printing Ink Manufacturers (NAPIM) is presenting these comments in response to a request of the Senate Committee on Finance. NAPIM is a national trade association representing small, medium and large manufacturers of printing ink in the United States and these comments are submitted on behalf of the entire printing ink industry.

NAPIM points out that exports of printing ink to Canada have declined while imports have been growing and that the balance of trade has substantially shifted towards Canada. Since 1981, printing ink imports from Canada have increased by 118% while exports have decreased 3.4%. There is a wide disparity between import duties for printing ink products into the U.S. versus import duties imposed by Canada. At the present time, the U.S. duty on printing ink products is 1.8% ad valorum while Canada imposes duty of 12.5% plus 9% manufacturing and sales tax. NAPIM believes that this disparity in import duties should be corrected. We believe that duties on identical products should be identical and that the principle of equal access should be followed with respect to the U.S.- Canada free trade negotiations.

August 11, 1987

The Honorable Lloyd M. Bentsen
Chairman
Committee on Finance
United States Senate
205 Senate Dirksen Office Building
Washington, DC 20510

My dear Mr. Chairman:

This letter is written on behalf of the printing ink industry in response to the request of your Committee for comments on the U.S.-Canada Free Trade Area Negotiations. The National Association of Printing Ink Manufacturers, as spokesman for the printing ink industry, favors conclusion of a comprehensive free trade arrangement covering trading goods and services between the U.S. and Canada.

NAPIM

The National Association of Printing Ink Manufacturers, Inc. (NAPIM) is a national trade association representing small, medium and large printing ink manufacturers in the U.S. and accounting for almost 90% of the total industry shipments of printing ink. The printing ink industry is composed of 228 companies operating a total of 467 manufacturing facilities according to the U.S. Census of Manufactures for the year 1982. Nearly two-thirds of the total number of printing ink manufacturing facilities in the U.S. employ fewer than 20 employees.

INDUSTRY CONCERN

The printing ink industry is becoming increasingly concerned over the rapid increase in the importation of printing ink into the U.S. because of the potential adverse effect of such imports on domestic printing ink manufacturers. Canada is the third largest importing nation for printing inks into the U.S., closely following Germany and Japan in that order. Not only are printing ink imports from Canada growing rapidly, but such imported printing inks appear to be priced substantially below U.S. market prices. While NAPIM has no specific current information, an evaluation made in 1984 indicated that imported printing inks appeared to be priced at least 20% and more below average U.S. market prices. The depressed import prices do not appear to reflect dumping practices on the part of importing nations, but they do represent a potential adverse effect on the U.S. printing ink industry. NAPIM notes the significant disparity of import duties between the U.S. and Canada and feels that free trade, hence equal access, would help to alleviate the problem or at least place trade between the two nations on a more equal competitive basis.

IMPORT DUTIES

There is a wide disparity between the import duty for printing ink products into the U.S. versus import duties imposed by Canada. Moreover, these disparities are clearly inequitable to U.S. printing ink manufacturers. At the present time, the U.S. duty on printing ink products is 1.8% ad valorum (10% for communist-block countries). By comparison, the import duties imposed by Canada are around 12.5% ad valorum plus 9% manufacturing and sales tax.

In addition to Canada, the other largest importing nations to the U.S. are Germany, Japan, the Netherlands and the U.K. While duties to each of these countries are higher than the U.S. (between 5.8% and 6.6%) none of them have duties approaching the high duty imposed by Canada. NAPIM recognizes that there may be some modest reduction in Canada's duties on printing ink in the short term as a result of current negotiations, but submits that in the interest of fair and free trade, duties on printing ink should be equal for the U.S. and Canada.

GROWTH IN PRINTING INK IMPORTS

Since 1976 imports of printing ink from Canada have been growing rapidly and are now more than 10 times the level of ten years ago. The shift in the balance of trade for printing ink between the U.S. and Canada has been especially notable during the last five years and imports of printing ink from Canada have grown 118% since 1981. Today, 17.5% of all printing ink imports into the U.S. are accounted for by imports from Canada.

Exports of printing ink to Canada also account for about 17.5% of total printing ink exports but the balance of trade is unfavorable. Since 1981, while Canadian imports increased 118%, exports to Canada declined 3.7%. Thus the balance of trade which formerly favored the U.S. has substantially shifted to Canada. In 1981 imports from Canada were about 70% of exports to that country; in 1986 Canadian imports were 159% of exports.

NAPIM acknowledges that a few Canadian printing ink manufacturers are owned by or affiliated with U.S. printing ink companies. On the other hand, most of the printing ink companies in both countries lack such affiliation and trade must depend on arms length commercial relationships.

CONCLUSION

NAPIM recognizes that duties on printing ink in general have been traded away in order to reap concessions in other product areas, probably mostly agricultural. This is highly unfair to the printing ink industry. While this may be considered an economic "fact of life" it does not resolve the problems now being encountered by the U.S. printing ink industry.

NAPIM recommends and requests that equal treatment be given to the U.S printing ink industry with respect to tariffs imposed by our trading partners, especially Canada. We believe that duties on identical products should be identical and that the principle of equal access should be followed. This has not been done in the past and the printing ink industry hopes that the equal access principle will be applied now in the U.S.-Canada free trade negotiations.

* * * * *

NAPIM appreciates this opportunity provide comments for consideration by the Senate Committee on Finance.

Respectfully submitted,

James E. Renson
Executive Director

jjr

NATIONAL FOREIGN TRADE COUNCIL, INC.
100 EAST 42ND STREET, NEW YORK, N.Y. 10017

RICHARD W. ROBERTS
PRESIDENT

August 14, 1987

The Honorable Lloyd M. Bentsen
Chairman
Committee on Finance
United States Senate
205 Senator Dirksen Office Building
Washington, D.C. 20510

Dear Senator Bentsen:

This letter is in response to the request of the Senate Finance Committee for comments on the U.S.-Canada free trade area negotiations.

The National Foreign Trade Council, an association of over 500 U.S. companies engaged in international trade and investment, supports the conclusion of a comprehensive free trade agreement between the United States and Canada.

At a time when the United States is engaged in a concerted national effort to expand U.S. exports and enhance the competitiveness of U.S. industry in world markets, the opportunity to gain greater access to the markets of our largest trading partner should be aggressively pursued. A comprehensive agreement covering not only tariffs but also non-tariff barriers, and establishing rules for services, investment and intellectual property, will stimulate economic growth in both countries.

While it is true that Canada is already a relatively open market and the volume of trade between the two countries is high (over $120 billion), a broad range of Canadian laws, policies and practices impede U.S. exports to and investment in Canada. Examples:

-Although 60% of U.S. exports enter Canada duty-free, much potential trade is discouraged by high Canadian tariff rates in a number of key industries.

-Canadian federal and provincial procurement practices discriminate against non-Canadian suppliers.

-Differences between Federal and provincial standards adversely affect the financial services sector and other sectors as well.

-Canada's screening of foreign investments, failure to adopt standards for treatment of foreign investment, discrimination against U.S. investment in certain sectors, and the risk that performance of requirements will be imposed, all inhibit U.S. investments.

-Restrictions on the establishment and operation of non-Canadian services companies, including financial and communications services, unfairly limit U.S. access to the Canadian market.

-Intellectual property is inadequately protected, and discriminatory policies are employed against non-Canadian proprietors.

A new trade agreement which established fair and equitable rules to address these problems would significantly enhance market opportunities for U.S. industry in Canada. In addition, a mechanism in the agreement to settle future trade and investment disputes promptly and fairly would improve the environment for industry in both countries.

The members of the National Foreign Trade Council will, of course, wish to review the proposed agreement before urging the Congress to approve it. In the meantime, the Council strongly supports the continuation of the negotiations.

Very truly yours,

Richard W Roberts

RWR/hks

RECOMMENDATIONS TO US NEGOTIATORS REGARDING THE US/CANADA FREE TRADE NEGOTIATIONS

July 7, 1987

The following summarizes the recommendations of the National Forest Products Association regarding the U.S. industry position on solid wood products during the U.S./Canada Free Trade Negotiations. This paper deals with:

I. Canadian Tariffs
II. Canadian Customs Procedures
III. U.S. Tariffs
IV. Softwood Lumber
V. Investment
VI. Other Items

I. CANADIAN TARIFFS

Recommendation:

- Every attempt should be made to eliminate Canada's tariffs on all wood products as soon as possible, with the exception of softwood plywood.

We agree that the tariff on softwood plywood should be eliminated; however, it is imperative that its elimination be tied to a correction in the prohibitive standards for softwood plywood used in Canada which virtually preclude the acceptance of most U.S. plywood. USTR representatives have assured us this linkage will be made but it does not yet show up in the new Harmonized System nomenclature. We simply want to reiterate this point for emphasis.

Otherwise, we understand that all tariffs will be eliminated by the year 2000.

Several other tariff items are worth mentioning. The U.S. industry has long called for the elimination of tariffs on both sides of the border on all moulding and mill work items (50075-01, 50600-01, 50600-04, 50600-08, 50610-01, 51300-01).

Finally, representatives of the particleboard, medium density fibreboard, and hardboard industries are concerned that U.S. tariffs on these items not be reduced any faster than Canadian duties on similar products. To the degree possible we believe this should be standard procedure for all wood products items.

II. CUSTOMS PROCEDURES

Recommendations:

- Clauses be included in the final agreement that preclude Canadian Customs from allowing misclassification by Canadian softwood lumber exporters to the United states to avoid the Canadian 15% export tax.
- Clauses be included in the final agreement that precludes Canada from making arbitrary product category shifts throughout its customs procedures.

Even though the Canadian Parliament has passed the laws necessary to implement the Softwood Lumber Agreement (see section IV), statistics indicate that considerable avoidence of the 15% export tax imposed by Canadian customs at its U.S. Canadian border is occurring. The U.S. softwood lumber industry would like to be assured that this will cease.

The moulding and millwork people have been badly hurt by Canadian Customs shifting products from one category at low tariff to a higher one just as volume is building, arguing that such change was made due to a re-evaluation. Help in preventing this would be most appreciated.

III. U.S. TARIFFS

Recommendations:

- With the caveats mentioned below, the U.S. government accept Canadian requests for early reduction to zero tariff, provided the Candians agree to American requests.
- The U.S. government make no tariff concessions on wood products such as plywood, hardboard, and millwork until nontariff barriers such as standards and codes that restrict U.S. trade are resolved.

We assume that, as requested, the particleboard category - which includes waferboard, a big item from Canada - will be negotiated in such a way that U.S. and Canadian tariffs come down together, and that the softwood plywood standards issued will be dealt with.

In addition we assume - and USTR representatives have confirmed this - that the 201 case ruling on shakes and shingles (4418.50) will continue in effect. This would mean that this item cannot be reduced to zero until it has run its course when the 201 case five year phasing is completed.

IV. SOFTWOOD LUMBER

Recommendation:

- **That, in spite of the Free Trade Negotiations, the U.S. continue to enforce the provisions of the U.S./Canada Softwood Lumber Agreement of December 30, 1986.**

We understand from USTR representatives that the FTN will consider and keep in force all existing government rulings on trade (sect. 201, 301) and certain bilateral agreements. We thus assume the Softwood Lumber Agreement will remain in effect and that the 15 percent export tax will not be alleviated in any way until a stumpage fee program is jointly designed and implemented by the U.S. and Canada, and receives full acceptance from the provinces.

V. INVESTMENT

Recommendation:

- The U.S. government negotiate a position of investment policy equivalence between the two countries.

The U.S. industry wholeheartedly supports the U.S. government's efforts to minimize Canada controls on U.S. investments. In the past the U.S. industry has made major investments in the Canadian forest products industry. However, in recent years that trend has diminished; in actuality the U.S. forest industry has tended to disinvest in Canada.

In part this disinvestment practice of the U.S. wood products industry has been influenced by Canada's economic outlook; and regulations on foreign investments.

We applaud the U.S. government's efforts to negotiate an equivalence in investment practices and controls; that is, our government's insistance that the Canadians have no more restrictions or regulations regarding investments than we in the United States have on their investments in our country.

VI. OTHER ITEMS

Recommendation:

- The U.S. government, as part of its FTN with Canada, negotiate a means to deal with the disparity between the volume of the dollars of the two countries.

A major problem, increasingly stimulating trade disparities between the respective value of their currencies. It would seem that something must be done to rectify this if any success is to come to FTN.

NFPA

August 10, 1987

The Honorable Lloyd Bentsen, Chairman
Committee of Finance
United State Senate
205 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Bentsen:

On behalf of the members of the National Forest Products Association (NFPA), I would like to express our industry's support for the U.S./Canada Free Trade Agreement.

NFPA is a national industry trade association which represents the interests and views of owners and managers of forest lands, manufacturers of forest products, and affiliated regional and product associations. Our membership includes over 750 manufacturers and over 80 associations and affiliated members.

We are pleased to see that the government is making progress with the Free Trade Negotiations. Although our industry has taken positions on U.S./Canada trade in the past, we thought it would be useful to you if we summarize those issues which are most important to our industry.

The attached paper presents our views on Canadian tariffs, customs procedures, U.S. tariffs, softwood lumber, investments, and other items.

Thank you for your continuing support for the interests of the U.S. wood products industry.

Sincerely,

Barry Cullen

Barry M. Cullen
President
National Forest Products Association

cc: Mary McAuliffe, Senate Committee on Finance
Laura Wilcox, Senate Committee on Finance

NATIONAL FOREST PRODUCTS ASSOCIATION
1250 CONNECTICUT AVE. NW • SUITE 200 • WASHINGTON, DC 20036 • 202 463-2700

NATIONAL LUMBER AND BUILDING MATERIAL DEALERS ASSOCIATION **NLBMDA**

August 18, 1987

The Honorable Lloyd M. Bentsen
Chairman
Senate Finance Committee
U.S. Senate
Room 205, DSOB
Washington, D.C. 20510

Dear Mr. Chairman:

The National Lumber and Building Material Dealers Association (NLBMDA) is pleased to provide our thoughts and observations on the pending United States-Canada Free Trade Agreement.

SUMMARY:

Overall, NLBMDA supports these significant trade expansion negotiations. The recent trade frictions which have developed in our forest products industry over the past several years are excellent proof of why a comprehensive trade agreement between the U.S. and Canada is not only desirable, but necessary. To ensure a stable, affordable, and plentiful supply of lumber and other building materials for our nation's vitally important housing sector, the Free Trade Agreement is a positive step.

NLBMDA:

Through our twenty-four state and regional Federated associations, NLBMDA represents over 15,000 retail lumber and building supply businesses. Our membership primarily consists of small, family-owned and operated, single-yard establishments. Based on the most recent business census, the average lumberyard has only 11 employees and has annual sales of nearly one million dollars. Taken as a whole, however, in 1986, our industry had a retail volume of over $74 billion and a full and part-time workforce of approximately 250,000 employees.

Because our industry serves as the integral commercial link between the building material manufacturer and the homebuilder/remodeler/"do-it-yourself" consumer, our membership represents the cutting-edge in the delicate balance of the lumber supply and demand marketplace. Our retail-oriented views take into account the importance of Canadian products availability in the American consumer economy.

THE U.S.-CANADIAN LUMBER "TRADE WARS" 1985-87:

Allied with other associations, businesses, and consumer groups, which retail, transport, or consume Canadian lumber, NLBMDA has been the lead organization in opposition to Congressional and regulatory efforts to place tariffs on the imports of Canadian softwood lumber. NLBMDA was active under the "Stop Unfair Wood Tariffs" coalition; our industry's experience during these very difficult legislative and trade complaint actions has convinced us that a more reasonable and less political system is needed, at least with regard to U.S.-Canadian lumber trade. Furthermore, the softwood lumber "settlement" of December 1986 is the perfect example of how a trade complaint should not be resolved by the Federal governments of the United States and Canada. From our industry's parochial view, the settlement has contributed to higher lumber prices for both U.S. and Canadian lumber and restricted the availability for certain kinds of needed Canadian lumber. Furthermore, no guarantee exists that future trade complaints by U.S. lumber manufacturers will be avoided.

The current trade complaint system in the United States is, quite simply, unacceptable to our membership.

ACTE/CAN:

NLBMDA is one of the original association supporters of the American Coalition for Trade Expansion with Canada (ACTE/CAN). While the individual members of this organization reserve the right to agree or to disagree with the specifics of the pending Free Trade Agreement, the principles of increased trade, reduced tariffs, and bilateral trade progress are universally supported by the 450 firms and trade associations which comprise ACTE/CAN. Most assuredly, NLBMDA agrees with the mission and purpose of the ACTE/CAN.

IMPORTANCE OF THE FTA TO THE RETAIL LUMBER AND BUILDING MATERIALS INDUSTRY:

Approximately one-third of all the softwood lumber sold by NLBMDA members is of Canadian origin. Our firms also retail many other products which originate in Canada. However, softwood lumber is by far our industry's largest Canadian product. While the percentage of Canadian lumber market penetration varies greatly from one region of the U.S. to another, the fact that there is such a large market share serviced by Canadian producers makes it imperative that any future trade restrictions are discouraged. As demonstrated during the last two U.S. countervailing duty investigations on softwood lumber, even the hint of a U.S. duty has rocketed lumber prices, upset lumber procurement, and disturbed traditional lumber demand patterns.

Presumably, an effective U.S.-Canadian Free Trade Agreement would reduce the possibilities of future lumber trade action by certain U.S. lumber manufacturers. A positive trade enhancement commitment by the two countries would serve notice that trade expansion, not protectionism, is in the best interests of the two nations. Presumably, as part of a comprehensive FTA, a U.S./Canadian trade remedy tribunal would provide finite trade definitions and codes of industry conduct, which would remove political confrontation and shaky trade law "interpretations" from the vital determinations which need to be made on such essential trade decisions as production subsidies, product dumping, and natural resource pricing and access.

The stakes are, indeed, high. Close to three billion dollars (US) worth of softwood lumber imports from Canada, in 1986, had a major impact on our country's housing economy and on the continued ability of the nation to provide safe, decent, and affordable housing opportunities. The American homebuyer, homebuilder, and lumber retailer should not be held hostage by a successful, but unfair, trade complaint action filed by certain U.S. lumber interests against Canadian lumber producers.

CONCLUSION:

NLBMDA supports the ongoing Free Trade Agreement negotiations. The prospects of a comprehensive, effective, and popular trade understanding between the two largest trading partners is a positive trade development that our retail lumber and building material industry welcomes. The Free Trade Agreement has the potential to end lumber disputes, increase building products trade, and set an example for other trading nations in the free world, proving that free and fair trade is attainable. This agreement must be given the opportunity to work. NLBMDA urges the United States Senate Finance Committee to provide the kind of encouragement and leadership necessary to ensure not only that these negotiations continue, but also that they result in a workable and truly comprehensive trade agreement.

Respectfully submitted,

Harry J. Horrocks, II
Director, Governmental Affairs
National Lumber and Building
Material Dealers Association

cc: Mr. Harlan W. Hummel, Executive Vice President
National Lumber and Building Material Dealers Association

State and Regional Association Executives

Mr. Harry "Rick" Diz, Chairman, Legislative and Government Agency Affairs Committee, NLBMDA

National
Marine Engineers'
Beneficial
Association

444 [illegible] Washington, D.C. [illegible]

August 11, 1987

The Honorable Lloyd Bentson
Chairman
Senate Finance Committee
205 Dirksen Building
Washington, DC 20510

Dear Mr. Chairman:

The National Marine Engineers' Beneficial Association (NMEBA) is responding to your request for comments on the U.S.-Canada Free Trade Area negotiations.

NMEBA is deeply concerned because the Administration is actively considering a Canadian proposal which in the future would open up the Jones Act and other U.S. maritime promotional programs to Canadian vessels. The implications for our economy and national security are dire. Canadian vessels and quite probably those of foreign traders setting up paper companies in Canada could drive the entire U.S. merchant marine out of business. This could mean the loss of more than 400 sealift vessels as well as the working crews to man them.

The Department of Defense has stated how important these Jones Act vessels are to U.S. national security. Many of the bottoms are essential to fulfilling specific sealift needs. The Jones Act also provides critical support to our crippled shipyard mobilization base. All of these vital assets could be lost if the Administration continues to play so recklessly with our maritime policies and laws. The recent refusal of our close NATO allies to assist us in the Persian Gulf underscores the peril we place ourselves in when we let our own maritime resources wither.

NMEBA is disappointed further by the actions of an Administration which has consistently and unequivocally "reafirmed the sanctity of the Jones Act" yet so unmindfully tosses it on the bargaining table. We are also disappointed by an Administration which prides itself on its commitment to national defense yet will freely trade away sealift mobilization for a few alleged trade inroads.

Our members trust that you and the Members of the Finance Committee will be able to redirect the U.S. position with regard to the Canadian talks in light of the Administration's and Congress's longstanding commitment to maintain a strong U.S.-flag fleet as enunciated in the Merchant Marine Act of 1936. We strongly believe that U.S. maritime policies, programs and laws should be taken off the negotiating table at once.

Sincerely,

C.E. DeFries

C.E. DeFries
President

CED/ad

Testimony
# of the
National Pork Producers Council
In Connection With
United States - Canada Free Trade Area Negotiations

Summary of Testimony

The National Pork Producers Council supports the concept of a free trade area between Canada and the United States and the elimination of all tariff and non-tariff barriers between the two countries.

However, the Council is deeply concerned by the current Canadian hog subsidy program which has resulted in institutionalized excess production in Canada, most of which is shipped to U.S. markets. These Canadian pork imports unfairly depress pork prices in the United States to the detriment of domestic pork producers, who do not benefit from -- and do not wish to resort to -- government support programs in this country. Another issue of primary concern to the Council is the Canadian requirement of a thirty-day quarantine on U.S. hogs shipped to Canada, which constitutes a virtual embargo on hog imports.

The existence of these market-distorting practices makes it paramount that United States - Canadian trade in pork not be removed from the purview of our unfair trade practice statutes, including the countervailing duty and antidumping laws, as has been proposed in these Canadian negotiations.

The Council hopes that its concerns will be given full consideration by the Committee in its review of the Free Trade Area Negotiations.

This testimony is submitted on behalf of the National Pork Producers Council and its 100,000 commercial hog-producing members. The Council is the largest commodity dues-paying organization in the United States and accounts for more than 90% of the nation's commercial pork production.

The Council appreciates the opportunity to present its views and hopes its concerns will be given serious consideration in the Committee's review of the United States - Canada Free Trade Area Negotiations. Before raising the issues of main concern, the Council would like to stress that domestic producers are efficient, capable, and well-able to compete with producers of fairly-priced and fairly-traded pork anywhere in the world. U.S. pork producers benefit from no government support, and imports of foreign hogs and pork are free to enter the United States essentially without restriction.

The Council supports the concept of eliminating tariff- and non-tariff barriers to trade between Canada and the United States; it strongly feels, however, that a free trade area requires the elimination of the Canadian restrictions on U.S. shipments to Canada and the elimination of subsidy payments to Canadian producers by federal and provincial governments. These payments encourage pork production well in excess of Canadian market requirements, and most of this excess is sold in the United States to the detriment of U.S. producers.

In summary, three issues are of particular concern to the Council: 1) the continued subsidization of pork producers by Canadian federal and provincial governments, 2) the quarantine imposed by Canada on imports of slaughter hogs from the United States, and 3) the proposal of the Royal Canadian Government that United States - Canadian trade be removed from the purview of the U.S. trade statutes.

1. Subsidization

In 1980, the Canadian federal and provincial governments began making substantial payments to Canadian producers under so-called price stablization programs. These programs grant cash payments to Canadian hog producers when market prices are deemed to be too low to guarantee an "adequate" income to producers. The Council was successful in obtaining the imposition of countervailing duties in 1985 on imports of Canadian hogs to the United States with respect to these payments. The subsidies were so great that imports from Canada now face a U.S. countervailing duty of about U.S. $7.25 per head. However, the duties did not stop the Canadian subsidy programs. Canadian producers simply slaughter the hogs in Canada and ship the product to the United States in the form of fresh pork.

For 20 years prior to 1980, Canadian pork production remained within 100 million pounds of Canadian consumption. Since 1980-1981, however, pork production has increased consistently above the level of Canadian consumption, primarily as a result of the production incentives created by the Canadian subsidy programs. According to Toronto Minister of Agriculture, Jack Ridell (statement reported in the Toronto Star, June 27, 1987), about 30% of Canada's production in 1986 was exported from Canada (a 100% increase since the early 1980s), and of this, 88% was shipped to the U.S. These trends show no sign of abatement.

This surplus exportation has dramatically depressed prices of U.S. hog and pork products. American producers receive no protection from government programs and must fend for themselves in an artificially-distorted market. An even more perverse and long-lasting consequence of the Canadian subsidies is the institutionalization of the excess production in Canada. After having brought about increased production in its Eastern provinces during the early 1980s, Canadian governments have begun subsidizing the producers in their Western provinces with the express purpose of increasing pork production there. To serve the increasing hog production, the number and capacity of packing plants in the West have been increased. Canada is now faced with an excessive production base bearing no relation whatsoever to market prices or to internal Canadian needs. If not terminated, Canadian pork subsidies will result in an unchecked and permanent flood of Canadian pork into the United States. Particularly during periods when markets are depressed, a condition from which Canadian producers are insulated because of their subsidy programs, this large supply of Canadian pork will severely depress U.S. prices and cause serious injury to U.S. pork producers. As part of any free trade area agreement negotiations with Canada, that country must be required to eliminate its pork subsidy programs so that bilateral trade in pork will be truly free and fair. A unified market cannot exist where one group of producers of a product is subsidized and the remaining producers are not.

2. Quarantine

Currently, Canadian hog producers are free to send unlimited number of slaughter hogs to the United States, without any trade-restrictive health regulations. On the other hand, U.S. pork producers are _in fact_ precluded from shipping slaughter hogs to Canada. Canada currently imposes a thirty-day quarantine on imported hogs as a result of its concern for pseudorabies. This means that American hogs have to be fed _in Canada_ for thirty days before being sent to a slaughterhouse. To continue the feeding of hogs in Canada, of course, costs a tremendous amount of money and is commercially practical only for a very few high-quality breeding hogs sold at very high prices.

Because pseudorabies is a disease which primarily affects young pigs and which has no effect on the quality or safety of pork itself, it would be easy to satisfy Canadian health concerns through alternative methods, such as shipping the hogs under seal directly from the border to slaughter plants. As currently imposed, however, the thirty-day quarantine makes it virtually impossible for most U.S. pork producers to export their slaughter hogs to Canada. In practice, Canada thus imposes a virtual embargo on U.S. hog exports to that country.

The Canadian requirement has no equivalent in the U.S. regulations, despite the high statistical probability of the existence of that disease among Canadian herds. The requirement is particularly unfair, as it continues to be imposed at a time when Canadian imports have flooded the U.S. market. The Council urges the Finance Committee to insist upon the elimination of this non-tariff trade barrier as part of the United States - Canadian Free Trade Area Negotiations.

3. Application of Trade Laws to United States - Canadian Trade

The Council is concerned by the Canadian wish to remove United States - Canadian trade from the purview of the U.S. unfair trade statutes, including the countervailing duty and antidumping laws. The unfair advantage given to Canadian pork producers has only been partially neutralized by the imposition of countervailing duties on hog imports from Canada. As previously indicated, fresh pork imports from Canada have increased at the same time that hog shipments have declined as a result of the duties. The adverse effects of the Canadian subsidies will not be eliminated until countervailing duties have been imposed on Canadian pork products as well. Accordingly, the Council wishes to stress especially that United States - Canadian trade must remain subject to the U.S. trade statutes and that U.S. pork producers' only protection against Canadian subsidies not be negotiated away.

The Council fully supports the concept of an equitable free trade area between Canada and the United States, but free trade between the United States and Canada is and must be incompatible with trade-distorting practices such as direct government subsidies. These unfair injurious practices are not consistent with the concept of free trade and should remain subject to effective statutory sanctions. As the Royal Canadian Government often administers its countervailing duty statutes in a much more aggressive manner than does the U.S. Department of Commerce and the U.S. International Trade Commission (compare the Canadian countervailing duty case against subsidized beef from the European Economic Community with the U.S. countervailing duty case against Canadian pork subsidies), the Canadians are in no position to complain about the administration of the U.S. unfair trade laws.

Therefore, the Council strongly opposes any proposal to substitute an informal bilateral negotiating process for the existing trade remedy mechanisms. U.S. producers are subject to strong U.S. laws that prohibit the erection of restrictive trade barriers in interstate commerce among the States of the Union. These laws serve to protect producers and consumers in this country and provide clear benefits in genuinely free trade within the United States. There is no reason why trade in commodities between the United States and Canada should be removed from the discipline imposed by unfair trade statutes in the creation of a United States - Canada free trade area.

STATEMENT OF THE NATIONAL POTATO COUNCIL ON THE U.S. - CANADA FREE TRADE AREA NEGOTIATIONS

The following is a summary of the National Potato Council's (NPC) concerns regarding the negotiation of a U.S./Canada Free Trade Area:

1. The Free Trade Area (FTA) should cover all white or Irish potato products, including seed potatoes, that are fresh, chilled, frozen, dried, desiccated, dehydrated, or reduced to flour (in other words, all fresh and processed potatoes and potato products).
2. The Canadian use of "standard container laws," or easements, should be prohibited and the adoption of similar shipment standards should be established by both countries.
3. The Canadian "fast track" import relief system for fruits and vegetables, including the use of a surtax that can be imposed if the average monthly FOB price of imported produce falls below a specified average price for the last three or five years, should be removed.
4. Canadian direct assistance (subsidy) programs to potato growers, such as freight, storage, advance payments for storage crops and the Canadian Agricultural Stabilization Act, should be eliminated during the negotiations.
5. Imports of Canadian potatoes into the U.S. market have often been found to be out of grade. Therefore, fewer ports of entry for Canadian potatoes would help ensure that proper potato grade standards and inspections are carried out. Strong enforcement mechanisms should be established to ensure that table-stock potatoes are not shipped as seed to avoid grade standards.
6. A scientific panel composed of appropriate Canadian and U.S. officials should be formed to review all phytosanitary trade restrictions on a regular basis in order to eliminate unjustified regulations and to ensure that there is uniformity on the use of pesticides, insecticides, herbicides, food additives and ingredients.
7. A system to address unfair trade practices of perishable commodities should be instituted in order to address trade problems that may come up in the future and, if not dealt with in a timely manner, could increase great losses to the potato industry.
8. The current 35¢/cwt. tariff duty should not be eliminated unless the above-noted concerns are adequately addressed.

The following are the views of the National Potato Council (NPC), a trade association representing approximately 12,000 potato growers from across the United States in 37 states, on the possible negotiation of a U.S./Canada Free Trade Area. Similar views have been presented in detail to the Office of the U.S. Trade Representative, the U.S. International Trade Commission, and the U.S. Department of Agriculture.

NPC's comments concern potatoes and potato products with the following TSUS Numbers: 137.29-29; 140.50; 140.70; and 141.86. These cover all white or Irish potato products, including seed potatoes, that are fresh, chilled, frozen, dried, desiccated, dehydrated, or reduced to flour.

The National Potato Council appreciates the opportunity to present its views on the possible negotiation of a Free Trade Agreement with Canada. This Free Trade Agreement provides an excellent opportunity to resolve the numerous trade problems that we face with Canada. However, at the same time, such an agreement could have a devastating impact on the U.S. potato industry if it permits the elimination of U.S. duties on potatoes and potato products and does not resolve the Canadian tariff, subsidies and nontariff barriers that adversely affect the U.S. potato industry.

To illustrate the current situation as it relates to the trade in potatoes between the United States and Canada, one should examine the import and export statistics over the last several years.

FRESH POTATOES

Crop Year (July-June)	Canadian Imports from U.S. (1,000 hundred wt.)	U.S. Imports from Canada (1,000 hundred wt.)
1975/76	3,830	691
1976/77	5,508	805
1977/78	4,107	1,552
1978/79	3,648	1,320
1979/80	3,225	1,742
1980/81	2,858	3,981
1981/82	3,501	4,751
1982/83	2,464	3,548
1983/84	3,186	2,963
1984/85	3,439	4,745

From these figures, it can be seen that, at one time, the United States had a competitive advantage in exporting potatoes to Canada. That advantage no longer exists. The reasons for this turnaround in trade flow can be traced to several factors: (1) the effects of the Tokyo Round negotiation; (2) the myriad of tariff and nontariff barriers that are maintained by Canada and its provinces; and (3) the value of the Canadian dollar vis-a-vis the U.S. dollar.

With respect to the problem resulting from the Tokyo Round, three important changes occurred: (1) over a ten-year period, the GATT (General Agreement on Tariffs and Trade) Agreement reduced duties on imported Canadian potatoes 10 percent per year to harmonize at $.35 per hundred weight on January 1, 1987; (2) tariff-rate quotas on Canadian potatoes are to be eliminated by 1988; and (3) "proof of injury" criteria were established under the U.S. countervailing duty and dumping actions.

As a result of these changes, Canada over the last ten years has dramatically increased potato exports to the United States, particularly during the fall and winter marketing season.

While potato exports from Canada to the United States are increasing at rapid rates, the Canadians have regulations that allow the importation of U.S. potatoes only at times when the Canadian crop is in short supply. The Canadian Standard Container Law (SCL) is used as an interprovincial nontariff barrier. It prevents interprovincial potato shipments when a particular province has adequate local supplies. When a province needs additional potatoes, an "easement" to the SCL is granted. The same SCL is used to limit or prevent U.S. potato shipments of "bulk potatoes" into Canada. Bag shipments are allowed, but are not economically practical for the U.S. exporter. The result has been erratic U.S. potato exports, usually shipped through easements to the SCL during the summer period. Very few, if any, U.S. shipments are allowed into Canada during the periods when Canadian provinces have domestic potatoes available.

Thus, while the United States allows bulk and bag potatoes into the United States at any time, regardless of the availability of domestic supplies, the Canadian SCL prevents reciprocal access to the Canadian market. This Canadian practice must be stopped. Equal access to each country's market should be allowed. This could be accomplished if both countries adopted the same method of shipment standards. This should be one primary objective of negotiation in any Free Trade Agreement.

The Canadian Government has the authority to further restrict U.S. potato access through its "fast track" import relief system for fruits and vegetables. Although not often enforced, a surtax may be imposed if the average monthly FOB price of imported produce falls below a specified average price for the last three or five years. The "fast track" procedures for administering the surcharge system was introduced in 1979. At that time, potatoes, as well as cherries, strawberries and peaches, were singled out as named items. We strongly believe that the Canadian surtax system is inconsistent with GATT obligations because the safeguard action is not based on increased quantities of imports, but rather triggered by lower prices on imports. On several occasions since 1979, the Canadian Government has begun monitoring U.S. FOB prices on potatoes, with an eye toward implementation of this surtax. The mere existence of this surtax system and the monitoring by the Canadian Government is an impediment to trade to Canada. The Canadian surtax system must be removed prior to a Free Trade Agreement with Canada.

In addition to these various nontariff barrier import restrictions, the Canadian Government and provinces have a number of direct assistance programs, both federal and provincial, for potatoes. Included in these assistance programs are freight, storage, advance payments for storage crops and the Canadian Agricultural Stabilization Act, under which growers can receive deficiency payments if returns across Canada fall below an "average adjusted return" for the past five years.

These direct assistance programs have been cataloged in great detail by the Ad Hoc Advisory Group on Potatoes, formed by the Secretary of Agriculture to identify potato trade problems between the U.S. and Canada, and have been presented to the Secretary of Agriculture. Further, the Foreign Agricultural Service of the U.S. Department of Agriculture prepared an extensive and exhaustive study of Canadian trade barriers to potato exports from the United States.

Of particular interest to the Senate Finance Committee, thirty-two different Canadian subsidy, tariff and nontariff barriers are in existence to assist Canadian potato producers according to the Foreign Agricultural Service of the

USDA. These programs undoubtedly give the Canadian potato industry a distinct competitive advantage, since U.S. potato producers have no direct government assistance programs and few other comparable indirect assistance programs. Background on these various programs was compiled by the U.S. Department of Agriculture and provides the data necessary to see our trade position as necessarily dependent on the tariff on imported Canadian potatoes as the only means of counteracting the effects of Canadian government assistance programs.

U.S. potato growers, who receive no such direct assistance, strive for a balance of supply and demand. Canadian potato growers through direct assistance programs do not suffer the same economic losses from overproduction as U.S. potato growers. Therefore, we believe that these direct export assistance programs must be eliminated during the negotiations with the Canadian Government.

The U.S. potato industry has also experienced problems regarding potato grade standards and inspections. U.S. and Canadian standards on the whole are similar. However, inspections carried out by the USDA on Canadian imports of the 1984/85 crop found approximately 20 percent of the Canadian shipments to be out of grade.

Canada permits the exportation of off-grade potatoes to U.S. processors who then must verify that these potatoes do not enter fresh market trade. Unfortunately, it cannot always be verified that these potatoes went to processors, and often times it is believed that this product finds its way into the fresh market trade, thereby benefiting from a lower duty level. Fewer ports of entry for Canadian potatoes would help reduce these problems.

Additionally, often times table-stocked potatoes are shipped as seed to avoid grade standards and tariffs. Ultimately, however, these products do end up in the table-stock trade. This practice is illegal and it is believed that strong enforcement mechanisms should be instituted that the end use of seed potatoes is verified to ensure that the end use is in compliance with the stated grade and tariff rate. The U.S. potato industry strongly believes that frequent inspections should be continued to ensure that the proper duty is being assessed.

Regarding chemicals used in the growing and processing of potatoes, there is evidence of differences between the U.S. and Canadian regulations regarding the use of pesticides, insecticides, herbicides, food additives and ingredients. The National Potato Council recommends that a method of cooperation and collaboration be arranged between responsible agencies of the two governments to assure bilateral uniformity on all such regulations. This is necessary to facilitate trade and also to assure ultimate consumer protection. One possible solution would be the establishment of a scientific panel composed of appropriate parties from Canada and the United States be formed to review all phytosanitary trade restrictions. Any such restriction should be removed within one year if found to be unjustified. We believe that such a panel should periodically review these restrictions to assure that they are bona fide health and safety restrictions and not a nontariff barrier.

Finally, with regard to trade relief laws and their effectiveness, U.S. potato grower organizations have found the system of trade laws to be a lengthy and expensive process of fact-finding, which includes the necessity of proving "material injury". To date, this process has proven to be prohibitive and unworkable. In the negotiation of the Free Trade

Agreement, the National Potato Council believes strongly that a system to deal with unfair trade practices on perishable commodities must be instituted. Such a system must operate in a time frame that recognizes the highly perishable nature of commodities such as potatoes. If the intent of the Free Trade Agreement with Canada is to eliminate trade barriers and tariffs, then there must be a workable system in place to deal with trade problems that may come up in the future, which, if not dealt with in a timely manner, could cause great losses to the industry.

In conclusion, U.S. potato growers do not benefit from federal subsidies. Domestic potato growers do not have any quotas or restrictive trade barriers to imports of Canadian potatoes. Currently, the duty represents the only margin of protection on imported fresh potatoes from Canada. The National Potato Council believes that the U.S./Canada Free Trade Agreement holds forth great opportunity to eliminate many of the tariff and nontariff barriers the Canadian potato industry has used to the U.S. potato industry's disadvantage. However, if such unfair trade practices of Canada are allowed to exist, then the National Potato Council would strongly oppose the elimination of the current tariff, its only margin of protection at this time.

The National Potato Council continues to work closely with U.S. trade negotiators to assist in the identification of current unfair trade practices that Canada and its provinces maintain on potatoes. We thank you for the opportunity to present the U.S. potato industry's views on this most vital issue.

Save the dates...
NRMA's 77th ANNUAL CONVENTION & EXPOSITION
Sunday, January 10th—Wednesday January 13th, 1988
The New York Hilton & Sheraton Centre Hotels

National Retail Merchants Association

NRMA

TELEX—INT'L 220 · 883 · TAUR
TWS—DOMESTIC 710 · 581 · 5380 TPNYK
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August 17, 1987

The Honorable Lloyd M. Bentsen
Chairman
Committee on Finance
United States Senate
205 Senate Dirksen Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

I am writing on behalf of the National Retail Merchants Association ("NRMA") in response to your Committee's request for comments on the United States - Canada free trade arrangement negotiations.

The general merchandise retail industry has for many years generally supported efforts to reduce tariff and non-tariff barriers to free trade. In the past, retailers have supported multilateral approaches to achieve open world trade, and we continue to support such efforts. In addition, however, we see an important beneficial role for free trade arrangements such as the one negotiated between the United States and Israel, and the one now being negotiated with Canada.

As importers, retailers will benefit directly from any reduction in tariffs or non-tariff barriers that are achieved through a Canada - U.S. free trade arrangement. Those benefits are clear in the form of lower merchandise costs and greater merchandise selection. In addition, of course, retailers are particularly interested in services trade issues.

But NRMA's support for the Canada free trade arrangement is not based purely on parochial concerns. We believe the negotiation of a free trade arrangement with Canada — our largest trading partner — is indeed a "historic opportunity," which may allow the United States to quickly set important precedents on issues of particular concern in the areas of dispute settlement as well as trade in services and investment. The successful negotiation of an arrangement with Canada on these key international trading issues will undoubtedly move the United States closer to achieving a new multilateral framework with respect to these issues as part of the Uruguay Round. By the same measure, if the United States and Canada cannot reach agreement on these complex problems, the prospects of achieving progress on a multilateral basis could be seriously, if not permanently, impaired.

But to make real progress in ending tariff and non-tariff barriers to free trade, and in seeking new solutions to U.S. trade difficulties, both Canada and the United States must ensure that the negotiations lead to an agreement that is truly broad in scope. To that end, NRMA will be carefully reviewing the final negotiated agreement to see if lives up to its billing, and that it will ultimately open trade doors, not shut them.

By way of background, NRMA is composed of 3,700 companies representing approximately 45,000 leading chain, department and specialty stores in the United States, and an additional 1,000 retail firms in 50 nations abroad. Member firms have current annual sales in excess of $150 billion and employ nearly 3 million workers.

If you have any questions about NRMA or its position on this matter please contact Ms. Robin Lanier, Senior Legislative Representative, at 202/223-8250.

Sincerely,

James R Williams

James R. Williams
President

JRW/RWL/pmb

STATEMENT OF THE
NECKWEAR ASSOCIATION OF AMERICA
IN OPPOSITION TO
PROPOSED U.S.-CANADA FREE TRADE AREA AGREEMENT

The Neckwear Association of America is the trade association for domestic manufacturers of neckwear. Our businesses are concentrated in New York City, which accounts for more than one-third of industry employment, and in New Jersey, Louisiana, Pennsylvania, Missouri, North Carolina, Texas, Massachusetts, California, and Michigan.

The Neckwear Association of America opposes the proposed U.S.-Canada Free Trade Arrangement (FTA) for a number of reasons. Chief among these reasons is that we oppose any arrangement that would lower or eliminate duties on necktie imports. Our industry believes that there is a direct correlation between lower duties and increased imports as evidenced by what has happened to our industry since the beginning of the phase-in of the Toyko Round tariff cuts. In 1980, before the tariff cuts had begun to be phased in, imports had just 4 percent of our market. By 1986, this percentage had jumped to 21 percent. Now fully implemented, these cuts range from a 20 percent reduction in some necktie categories to more than a 50 percent reduction of the former duty rate in other categories. And as a result, every necktie category, from silk to man-made fiber, has experienced a rise in imports.

While some of the growth in imports is coming from the Far East, a huge percentage of this growth is from Italy, an industrialized country. Thus, our import problem is not limited to imports from low-wage developing countries. Canada is already the ninth largest supplier of textiles and apparel to the United States. If duties are eliminated on U.S. imports of Canadian neckties, it will provide Canadian necktie producers with sufficient economic reasons to increase their exports to the United States.

Our industry does not need more imports. Necktie imports almost tripled between 1982 and 1986, rising from 562,000 to 1.7 million dozen.

The neckwear industry is not a large industry. It is an industry composed mostly of many small establishments that generally employ fewer than 20 workers. The industry is a source of employment for people who have difficulty finding alternative employment because they lack education, skills or mobility. The industry provides work for women and minorities, and it provides entry level jobs for those who are new to the workforce. If imports continue to rise at current rates, jobs in our industry for such people will no longer exist.

Last, but not least, the neckwear industry is very much opposed to the proposal being advanced by Canadian FTA negotiators for a dispute settlement procedure to handle trade complaints. If Canadian products are unfairly traded, U.S. producers of these products pay the price. Submitting such grievances to a trade panel will only delay the implementation of effective relief or, more likely, result in no relief or ineffective relief being granted.

Committee on Finance
United States Senate
205 Dirksen Bldg.
Washington, D.C. 20510

Nestlé Enterprises Supports Free Trade Between U.S. - Canada

Nestlé Enterprises is made up of food companies with brand names familiar to most U.S. citizens. They include Taster's Choice Coffee, Nestlé Crunch candy bars, Nestlé Quik, Stouffer Frozen Foods, Lean Cuisine, J.B. Winberie Restaurants, Rusty Scupper Restaurants, Stouffer Hotels including The Mayflower in Washington, D.C., Libby's, Beech-Nut Baby Foods, Hills Bros. Coffee, MJB Coffee, Beringer Wines and L.J. Minor food service products. Nestlé is in the food business as a processor of agricultural products and an operator of hospitality facilities.

Our parent company, Nestlé S.A., is in the food business worldwide. It is the policy of Nestlé S.A. to operate in each country with nationals of each country as manager of that country's operation. This policy is very true in the United States and also in Canada.

The food industry tends to be severely restricted by tariffs which impede the flow of agricultural products between countries. As processors of agricultural products, Nestlé feels the impact of tariffs which may be designed to help local agricultural growers but at the same time result in surpluses in the U.S. and shortages in Canada, for instance. We see this particularly in products such as broccoli and cauliflower which are grown in the U.S. under ideal conditions but have restricted growth potential in Canada due to weather conditions. Yet the potential for Nestlé in Canada to buy the U.S. grown broccoli is priced higher by tariffs and restricts the market in Canada to a specialty market. The result is a difference in the identical products between the two countries due to a tougher raw product being used in Canada from Canadian growers.

In fish, we have an example of adequate supplies in Canada but we are limited here in the U.S. as to availability of fish filets. The tariff barriers we have built between our two countries forces our purchases of fish to come from other countries than our good neighbor to the north. Time and distance limits the availability of quality fish filets and this results in U.S. citizens not always having an adequate supply of quality fish.

There are distinct advantages in the processed food business to allow a free flow of products between Canada and the U.S. Canadian food processors have to have a high share of market to be profitable to operate. The Canadian market is not large enough to support strong competition as in the U.S. If the tariffs are eliminated between Canada and the U.S., the U.S. would definitely benefit with agricultural products flowing north to Canada and Canadian food processors would benefit in an enlarged market area to make their operations profitable. U.S. food processors are used to competition and U.S. food processors would welcome the opportunity to compete in Canada.

There are a few distinct flavor differences in foods between Canada and the United States. This has resulted in Canadians and U.S. citizens having accepted different standards. Two areas are beef and cheese. U.S. beef is butchered at a higher animal weight and we have a better flavored end product. In cheese, the milk is different and this results in a sharper flavor in the Canadian Cheese. There is an opportunity to build trade for both countries in free exchange of our end products in the high volume commodity areas of beef and cheese.

The breaking down of tariff barriers between Canada and the U.S. is a must if both countries are to maximize their full potential. A fair and equitable agreement will result in more jobs, increased economic growth, lower prices and more variety of products for the consumer and the U.S. will benefit in having a larger market for agricultural and meat commodities. We support the efforts of the U.S. negotiators to use their best efforts to structure an agreement fair to both the U.S. and Canada. Achievement of such an agreement should be a major priority of the United States this year.

Sincerely,

James M. Biggar
President & Chief Executive Officer
Nestlé Enterprises, Inc.

JMB/jl

New England Electric

New England Electric System
25 Research Drive
Westborough, Massachusetts 01581
Tel. (617) 366-9011

August 12, 1987

The Honorable Lloyd E. Bentsen
Chairman
Committee on Finance
U.S. Senate
Washington, D. C. 20510

Dear Mr. Chairman:

Summary: This letter is in response to your July 27, 1987, request for comments on the U.S.-Canada Free Trade Area negotiations. In summary, this letter:

- Explains that free trade with Canada is important to the electric customers of New England Electric System (NEES) companies. In fact, our customers' monthly bills and the reliability of electric power in the the region could be affected.
- Urges that the Senate proceed promptly with the approval of a U.S.-Canada free trade agreement, assuming that the agreement being negotiated removes trade barriers and encourages free trade.

Free trade affects electric customers' bills and the reliability of electric service.

We support the concept of a free trade agreement with Canada because our customers' interests are directly affected -- in terms of the cost and reliability of electric service.

A description of the advantages of importation and exchange of electricity with Canadian utilities should help illustrate the point:

- In 1972, the New England region was dependent upon imported oil for the energy needed to produce 72% of its electricity. Since then, strong efforts have been made by utilities in the region to reduce this dependence -- with the result that, in 1986, only 37% of the energy needed to produce electricity came from oil. The reduction in dependence on imported oil was made possible largely by increased use of coal, nuclear energy, natural gas -- principally from domestic sources -- and hydro-electric power imported from Canada.

- Contracts have already been signed by the New England Power Pool (NEPOOL) which will result in increased use of Canadian hydro-electric power in the early 1990's. By then, nearly 10% of the New England region's electricity will be supplied from Canada and the cost will be significantly less than electricity being produced in New England. This means that electric customers' bills will be lower because electricity is available at low cost from Canada.

- Imported electricity from Canada is also important to the reliability of electric service in the region. Electricity demands have been growing at more than 4% per year over the past four years. It is difficult to site new generating facilities in New England and to build transmission lines that could bring excess power from the Midwest to New England.

- Lower cost imported electricity provides important economic benefits for the region and nation. Specifically, lower electric bills will mean that our customers will be able to devote more of their income to savings or to the purchase of other goods and services, thus contributing to a stronger U.S. economy. Also, low electric bills for commercial and industrial customers mean that the products and services they provide will be more competitive in international markets -- thus adding jobs in the U.S.

- Arrangements with Canadian sources for the purchase of electricity also provide benefits for both countries in that such arrangements permit the exchange of electricity as well as the importation. Exchanges of electricity permit more efficient operation of systems on both sides of the border. Exchanges are practical because systems north of the border tend to experience highest demand in winter months (i.e., "winter peaking") whereas systems south of the border experience highest demand in summer months (i.e., summer peaking). Arrangements for exchanges mean that systems on each side of the border need less generating capacity to meet peak demands -- resulting in more efficient use of available capacity and lower costs.

Prompt ratification of an acceptable Free Trade Agreement would be beneficial.

We will, of course, want to see the final version of the Free Trade agreement now being negotiated. However, we are aware that those negotiating an agreement on behalf of the U.S. are working to reduce trade barriers and avoid new barriers. At the same time, opposing interests are at work attempting to erect new barriers. We believe that prompt action by the Senate in approving a new agreement will go a long way toward protecting the interests of our customers.

Thank you for the opportunity to comment.

Sincerely,

Glenn R. Schleede

Glenn R. Schleede
Vice President

Comments Concerning the Negotiation of a U.S.-Canada Free Trade Area Agreement

Submitted By

Non-Ferrous Metals Producers Committee

SUMMARY

The Non-Ferrous Metals Producers Committee (NFMPC) (previously named the Lead-Zinc Producers Committee), a trade association of U.S. primary copper, lead, and zinc producers, believes that its products should be excluded from any U.S.-Canada Free Trade Area Agreement (FTA). The exclusion is necessary because the FTA would threaten extreme competitive harm to the U.S. non-ferrous metals industries while offering no benefit to them whatsoever and because Canada's extensive system of federal and provincial government subsidies for the Canadian non-ferrous metals industries is fundamentally incompatible with the goals of a true free trade area. Also of major concern is the proposal for a U.S.-Canadian dispute settlement mechanism which, if made mandatory, could prevent U.S. firms from obtaining effective relief under U.S. trade laws, even when imports are dumped or subsidized. Similarly of concern would be any agreement to narrow the statutory definitions of dumping and subsidies so as to exempt current or future Canadian practices from the purview of U.S. trade laws.

I. INTRODUCTION

The Non-Ferrous Metals Producers Committee (NFMPC) (previously named the Lead-Zinc Producers Committee), a trade association of U.S. primary copper, lead, and zinc producers, believes that its products should be excluded from any U.S.-Canada Free Trade Area Agreement (FTA). The exclusion is necessary because the FTA would threaten extreme competitive harm to the U.S. non-ferrous metals industries while offering no benefit to them whatsoever and because Canada's extensive system of federal and provincial government subsidies for the Canadian non-ferrous metals industries is fundamentally incompatible with the goals of a true free trade area. Also of major concern is the proposal for a U.S.-Canadian dispute settlement mechanism which, if made mandatory, could prevent U.S. firms from obtaining effective relief under U.S. trade laws, even when imports are dumped or subsidized. Similarly of concern would be any agreement to narrow the statutory definitions of dumping and subsidies so as to exempt current or futute Canadian practices from the purview of U.S. trade laws.

The NFMPC is comprised of five U.S. producers of primary copper, lead, and zinc who account for most U.S. output of these products.* These firms also are major producers of related co-products and by-products including antimony, bismuth, cadmium, sulfuric acid, and zinc oxide. The member firms are:

ASARCO Incorporated
180 Maiden Lane
New York, NY 10038

Doe Run Company
11885 Lackland Road
St. Louis, MO 63146

Homestake Mining Company
650 California Street
San Francisco, CA 94108

Phelps Dodge Corporation
2600 North Central Avenue
Phoenix, AZ 85004

St. Joe Resources Corporation
300 Frankfort Road
Monaca, PA 16061

The U.S. industry competes directly with Canadian non-ferrous metals producers in the production and sale not only of copper, lead, and zinc metal, but also of the by-product metals and by-product sulfuric acid.

II. THE U.S. PRIMARY COPPER, LEAD, AND ZINC INDUSTRIES HAVE MUCH TO LOSE AND NOTHING TO GAIN FROM FREE TRADE IN THEIR PRODUCTS

The FTA could inflict severe harm on the U.S. primary non-ferrous metals industries, which have much to lose and nothing to gain from an agreement covering their products.

First, the U.S. industries will receive no export benefit from an agreement covering their products because Canada already has zero duties on these products and is a substantial net exporter of them.

Second, Canada already provides 40 percent, 52 percent, and 73 percent, respectively of U.S. imports of primary copper, zinc, and lead and does not need further reductions in the U.S. tariffs in order to compete successfully. (See Table 1.)

Third, the U.S. copper, lead, and zinc industries, in common with other commodity sectors, have suffered the effects of global overcapacity and depressed world market prices. The response of the U.S. industries has been to cut costs and improve productivity considerably at all stages of production. However, the industries do not have the resources to survive in the face of heavily-subsidized Canadian competition which threatens to undermine the progress made in cutting costs.

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* Mining, smelting, and refining facilities producing copper, lead and zinc products and related products are located in Arizona, Colorado, Connecticut, Idaho, Illinois, Missouri, Montana, Nebraska, New Mexico, New York, Oklahoma, Pennsylvania, Tennessee and Texas.

Fourth, although U.S. tariffs are already relatively low, they provide a crucial margin of support for the U.S. industry.* Moreover, tariffs assist U.S. copper, lead, and zinc custom smelters to compete in world markets for raw materials in the form of ores and concentrates. Elimination of tariffs on primary copper, lead, and zinc metal imports from Canada would place U.S. smelters at a disadvantage in this worldwide competition.**

III. CANADIAN FEDERAL AND PROVINCIAL GOVERNMENT SUBSIDIES ARE FUNDAMENTALLY INCOMPATIBLE WITH A FREE TRADE AREA

The Canadian copper, lead and zinc industries are enjoying federal and provincial government subsidies on a massive scale. It would be folly to combine in a single free trade area the U.S. industries, which are forced to accept the discipline of the free market, and the Canadian industries, which enjoy the benefit of governmental subsidization to help them avoid the effects of market forces. "Free trade" involves not merely the absence of tariffs but also the absence of government intervention into the operation of market forces. In an FTA, the Canadian industries would enjoy a subsidy-based competitive advantage over the U.S. industries.

Although the NFMPC has identified nearly 100 Canadian governmental programs to assist the Canadian mining industry, the Canadian government's C$134 million assistance to the Cominco lead smelter in British Columbia, the C$25 million assistance aid to the Cyprus Anvil Mine in the Yukon, and C$300 million assistance for non-ferrous smelter modernization and acid-rain pollution control* have been documented in detail by U.S. Government agencies.

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* Unwrought, unalloyed lead (TSUSA 624.0350), 3.0% *ad val.* on the value of the lead content, but not less than 1.0625¢ per lb. of lead content. Unwrought, unalloyed zinc (TSUSA 626.0200), 1.5% *ad val.* Unwrought copper, 1% *ad val.*

** It is probable that increased quantities of non-Canadian concentrates would be imported and smelted in Canada and then exported to the United States.

There exists a firm Canadian industrial policy of supporting and rebuilding the Canadian non-ferrous industry with the aid of subsidies. Canadian non-ferrous metal exports have been, and will continue to be, directed at the United States. For the Canadians, the proposed FTA with its duty-free access to the U.S. market is the capstone of this policy.

Even if the Canadian Government agrees to refrain from future subsidies, the U.S. copper, lead and zinc industries would continue to be harmed by the effects of subsidies now being received by Canadian producers. These subsidies are presently being used to finance the modernization of economically marginal Canadian capacity as well as the creation of additional capacity, thereby placing further burdens on unsubsidized U.S. competitors.

IV. A PROPOSED MANDATORY U.S.-CANADIAN DISPUTE SETTLEMENT MECHANISM WOULD CRIPPLE THE EFFECTIVENESS OF U.S. TRADE LAWS

Canadian representatives, including the Prime Minister, have stated that the exemption of Canada from the application of U.S. trade statutes is their highest priority in these negotiations. Such an exemption would be a disaster for U.S. industry. However, even if a formal exemption was not provided, the Canadians could well achieve something of equivalent value to Canada -- a mandatory dispute settlement mechanism. Such a mandatory mechanism could be extremely harmful to the copper, lead and zinc industries and, indeed, to most other U.S. manufacturing industries.

A mandatory system would require U.S. firms injured by dumped or subsidized products imported from Canada to present their cases to a U.S.-Canada trade dispute mechanism before they could petition for relief under current U.S. trade remedy laws. This mandatory interposition of a mechanism between an American petitioner and the International Trade Commission and Department of Commerce would (1) require U.S. firms to bear the significant, additional financial burden of presenting its case twice -- first before the new mechanism and then again before U.S. Government agencies, (2) cause a significant delay in the U.S. firms receiving any relief under U.S. law, and (3) undoubtedly prejudice the U.S. firm's case before U.S. agencies if the dispute resolution mechanism failed to provide relief to the U.S. firm. Such a mandatory system could have a chilling effect on the utilization of U.S. trade laws vis-a-vis Canada. No mechanism should be established which diminishes the right of any U.S. firm to seek prompt relief under current U.S. trade relief statutes.

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* Although U.S. smelters try to recoup some of the cost of pollution control by selling the captured sulfur in the form of sulfuric acid, their efforts will be increasingly thwarted by lower priced Canadian sulfuric acid exported to the United States from Canadian pollution control-related acid plants financed with Canadian Federal and Provincial Government assistance.

Equally of concern would be any agreement to narrow the definitions of unfair trade practices, such as dumping and subsidies, so as to exempt current and future Canadian practices from the purview of U.S. trade laws. Such a step would put U.S. industry in peril and set a dangerous precedent inviting other governments to seek similar exemptions for their subsidized industries.

V. CONCLUSION

U.S. producers of primary copper, lead, and zinc would be harmed by inclusion in a U.S.-Canada Free Trade Area Agreement because of Canada's already dominant position in U.S. imports of their products and because of the government subsidies enjoyed by the Canadian producers. The products of these industries, therefore, should be excluded from any such agreement. Furthermore, the U.S. negotiations should not permit a weakening of the relief provided under U.S. trade laws which stand as an important recourse for U.S. industries competing with subsidized Canadian firms.

THE OFFICE OF THE CHEMICAL INDUSTRY TRADE ADVISOR COMMENTS ON A BILATERAL FREE TRADE AGREEMENT BETWEEN THE UNITED STATES AND CANADA

EXECUTIVE SUMMARY

The following comments of the Office of the Chemical Industry Trade Advisor (OCITA) on a possible bilateral free trade agreement between the United States and Canada present issues which OCITA believes must be addressed by the United States prior to entering into any such agreement.

First, OCITA believes that any bilateral free trade agreement must confer balanced benefits to both the United States and Canada. One country must not benefit to the detriment of the other.

Second, OCITA believes that the long-term objective of such a free trade agreement is to achieve an open environment for international trade and investment unencumbered by barriers and governmental intervention in the marketplace. In this regard, we believe that any free trade agreement must address non-tariff barriers to trade. For example, we believe that negotiations on the elimination of preferential Canadian chemical feedstock and energy policies and foreign investment restrictions must be an integral part of any U.S. free trade agreement with Canada. Moreover, we believe that other non-tariff trade barriers, such as inadequate protection of intellectual property rights, should also be considered in any free trade agreement between the two countries.

OCITA is opposed to any chemical industry product or subsectoral approach to a free trade agreement. Instead, we believe that any tariff negotiations with Canada, coupled as indicated above with negotiations on non-tariff barriers, must address all chemicals and related products.

To ensure the effectiveness of the tariff elimination component of a free trade agreement with Canada, any such agreement should contain appropriate "country of origin" provision to prevent third country pass-through or simple transformation to circumvent U.S. or Canadian tariffs.

Moreover, OCITA believes that a free trade agreement with Canada should: provide for the reimposition of duties in the event of non-fulfillment of agreement conditions; address other issues, such as how temporary trade distortions caused by currency fluctuations and injury to a domestic industry by duty-free entry of products will be handled; and contain an adequate and binding dispute settlement mechanism (the dispute settlement provisions contained in the U.S./Israeli agreement are not adequate in our opinion). The dispute settlement mechanism should not be used as a means to circumvent existing national trade remedy laws. These laws should remian in full force and effect, separate from any free trade agreement.

Finally, OCITA believes that it is absolutely essential that the U.S. Administration provide adequate and timely opportunities for chemical industry input during the negotiations with Canada. OCITA urges the utilization of the Industry Sector Advisory Committees (ISAC) for this process. However, we believe that other industry groups must also be included in this consultative process.

OCITA believes that, if the issues discussed in our comments are considered by the Congress and if they are adequately addressed in a free trade agreement with Canada, then trade benefits mutually advantageous to both countries are achievable through such an agreement.

OCITA Statement of Key Principles Concerning a Bilateral Free Trade Agreement Between the United States and Canada

1. Any bilateral free trade agreement must confer balanced benefits to both the United States and Canada.

2. Negotiations on the elimination of preferential Canadian chemical feedstock and energy policies and foreign investment restrictions must be an integral part of any U.S. tariff agreement with Canada. In this regard, the U.S. Government must not commit itself to any tariff cuts prior to obtaining Canadian agreement to eliminate these non-tariff trade and investment barriers.

3. Other non-tariff trade barriers, such as inadequate protection of intellectual property rights, should also be included in any free trade agreement between the United States and Canada.

4. The tariff elimination components of a bilateral free trade agreement between the United States and Canada should include all chemicals and related products and should not be restricted to chemical industry subsectors or specific products.

5. The U.S. government should consult with the U.S. chemical industry and provide adequate opportunities for timely industry input during U.S. negotiations with Canada.

6. A free trade agreement with Canada should contain an appropriate "country of origin" provision.

7. A bilateral free trade agreement with Canada should provide for the mandatory reimposition of duties in the event of non-fulfillment of the conditions of the agreement.

8. A bilateral free trade agreement with Canada should contain an adequate and binding dispute settlement mechanism. (Such a mechanism would address disputes as to interpretation of the agreement. It should not be used to replace existing national trade remedy laws e.g., antidumping and countervailing duty laws).

9. To avoid impairment of benefits, a free trade agreement with Canada should also address other issues, such as how temporary trade distortions caused by currency fluctuations and injury to a domestic industry by duty-free entry of products will be handled.

THE OFFICE OF THE CHEMICAL INDUSTRY TRADE ADVISOR COMMENTS ON A BILATERAL FREE TRADE AGREEMENT BETWEEEN THE UNITED STATES AND CANADA

I. INTRODUCTION

The Office of the Chemical Industry Trade Advisor wishes to make the following comments on a bilateral free trade agreement between the United States and Canada. OCITA is a coalition of the following trade associations: the Chemical Manufacturers Association; the National Agricultural Chemicals Association; the Society of the Plastics Industry, Inc.; and the Synthetic Organic Chemical Manufacturers Association. OCITA believes that each of the issues presented in these comments must be integral and essential parts of any free trade agreement between the United States and Canada.

II. GENERAL COMMENTS

The United States and Canada are each other's largest trading partner. Chemical trade represents a substantial portion of this figure. In 1986, Canadian chemical exports to the United States were about $2.8 billion. This reflects a 1986 chemical trade balance of about $100 million in favor of Canada. [1/]

The chemical industry of each country has substantial direct investment in the other country. In many cases, Canadian subsidiaries of U.S. companies produce intermediate or finished products, not only for the Canadian market, but also for the United States and third country markets.

In addition, the strengths of the U.S. and Canadian chemical industries complement each other. Canada has a rich base in natural resources, especially in hydrocarbons, with installed capacity for large volumes of certain basic chemicals and intermediates. The United States has a highly developed basic chemical and downstream chemical processing industry, as well as capacity to produce a variety of commodity chemicals. The United States also has the world's largest market for products of the chemical industry.

III. SPECIFIC COMMENTS

A. Any Bilateral Free Trade Agreement Must Confer Balanced Benefits to Both the United States and Canada.

OCITA believes that the benefits of any bilateral agreement must be even-handed; one country must not benefit to the detriment of the other. The

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[1/] U.S. Dep't. of Commerce, Bureau of Census: Highlights of U.S. Export and Import Trade (FT990: December, 1986).

statutory authority for such agreements supports this contention. Section 102 of the Trade Act of 1974, as amended by Section 401 of the Trade and Tariff Act of 1984, [2] indicates that such negotiations should be conducted on the basis of mutuality. Moreover, the legislative history of the 1984 Act states the intention of Congress that bilateral agreements of the sort proposed with Canada must be "reciprocal and mutually advantageous." [3]

B. Any Free Trade Agreement with Canada Must Address Non-Tariff Barriers to Trade.

1. Negotiations on the Elimination of Preferential Canadian Chemical Feedstock and Energy Policies and Foreign Investment Restrictions Must be an Integral Part of Any Free Trade Agreement with Canada.

OCITA believes that the negotiations between the United States and Canada on a bilateral free trade agreement should not be limited to the subject of tariff-cutting. The elimination of trade distortions caused by preferential Canadian chemical feedstock and energy policies and by Canadian foreign investment restrictions must also be adequately addressed in such negotiations. Furthermore, we believe that the U.S. Government must not commit itself to eliminating or reducing any tariffs prior to obtaining Canadian agreement to eliminate the trade distorting effects of these restrictive policies. Ample support for the inclusion of non-tariff barriers in such negotiations is found in the Trade Act of 1974 and the Trade and Tariff Act of 1984. [4]

a. Canadian Raw Material and Energy Policies

OCITA believes that the internal energy policies implemented under the Canadian National Energy Policy (CNEP) have had an adverse effect on market mechanisms in Canada and on Canadian trade with the United States in energy-related products, such as chemicals. As part of a bilateral free trade agreement, we urge that the United States Government ensure that present and future Canadian governments' feedstock supply, price, and access policies do not serve as a barrier to otherwise fair competition.

This is necessary to avoid the creation, or perpetuation, of an artificial advantage for the producers of one country over those of the other. Such an assurance is particularly important to industries, such as the petrochemical industry, for which feedstock pricing and availability are critical because the cost of feedstocks represents the largest element of cost for many petrochemical products. If the trade distorting effects of the Canadian governments' policies with respect to the supply and price of, and access to, petrochemical feedstocks are not neutralized, then those Canadian policies will largely determine the conditions of competition in international trade in petrochemicals between the United States and Canada, undermining the workings of an open market system.

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[2] Section 102(b)(4) of the Trade Act of 1974 (19 U.S.C. §2112), *as amended by* Section 401(a)(2) of the Trade and Tariff Act of 1984, 98 Stat. 3014.

[3] H.R. Rep. No. 383, 98th Cong., 2d Sess. 18 (1984);H.R. Rep. No. 1092, 98th Cong., 2d Sess. 16 (1984).

[4] Sections 102(a), 103 and 105 of the Trade Act of 1974 (19 U.S.C. §§ 2112, 2113, and 2115) and Sections 302, *et seq*. and 401 of the Trade and Tariff Act of 1984 (19 U.S.C. §§ 2102, 2112(b), 2114 and 2411 (a)).

b. Canadian Investment Policy

The U.S. Government must address differences in investment policy between the United States and Canada to ensure that U.S. companies wishing to invest in the Canadian chemical industry are not subject to different or more stringent requirements than are Canadian investors in Canada.

In 1983, a General Agreement on Tariffs and Trade (GATT) panel found the Canadian Foreign Investment Review Act (FIRA) to be in violation of GATT Article III because FIRA made approval to invest in Canada contingent upon a foreign investor's acceptance of often onerous performance requirements to which domestic Canadian investors were not subject.[5/]

FIRA has been replaced by the Investment Canada Act (ICA) which is an improvement.[6/] While the ICA is supposed to liberalize the requirements imposed on foreign investors, several restrictions remain, especially on foreign acquisitions of existing Canadian companies. It remains to be seen how the ICA will continue to be implemented.

In any event, OCITA urges the United States Government to seek the elimination of discriminatory Canadian investment restrictions, other than those dealing with national security, prior to finalizing a tariff-cutting agreement with Canada.

2. Other Non-Tariff Trade Barriers, Such as Inadequate Protection of Intellectual Property Rights, Should Also be Included in Any Free Trade Agreement Between the United States and Canada.

There is growing recognition in the United States and abroad that the effective protection of intellectual property rights is essential to increased innovation and productivity and is a vital part of international trade decisions. Provisions aimed at encouraging such protection in other countries

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[5/] General Agreement on Tariffs and Trade, Report of the Panel, Canada-Administration of the Foreign Investment Review Act, L/5504 (July 25, 1983).

[6/] Introduced in the House of Commons on December 7, 1984. H.C. Bill C-15, 33d Parl., 1st Sess. (1984). Became law on July 1, 1985.

are contained in the Trade and Tariff Act of 1984 [7/] and in trade legislation pending in this Congress. The topic is being included in numerous bilateral trade and investment negotiations, and intellectual property rights are included in the new round of multilateral trade negotiations.

In this context, OCITA urges the United States Government to address the issue of protection of intellectual property rights as part of any free trade agreement with Canada. Canada has traditionally recognized the importance of providing such protection. However, some problem areas remain, for example, in the pharmaceutical field, where compulsory licensing requirements must be eliminated. We believe that a free trade agreement with Canada should include a resolution of these issues, as well as provisions eliminating any other non-tariff trade barriers that may exist.

C . The Tariff Elimination Components of a Free Trade Agreement with Canada Must be Effective.

1. The Tariff Elimination Components of A Bilateral Free Trade Agreement Between the United States and Canada Should Include All Chemicals and Related Products and Not be Restricted to Chemical Industry Subsectors or Specific Products.

A key issue in the U.S.-Canada negotiations is whether import duties or tariffs will be eliminated "across the board" or only on specific industry sectors, subsectors, or products. OCITA is opposed to any chemical industry product or subsectoral approach. Instead, we believe that tariff negotiations with Canada must address all chemicals and related products. We believe such broader negotiations offer greater potential for mutual trade benefits.

Tariff reductions and ultimate elimination, however, must not precede concurrent elimination of the non-tariff barriers we have identified as important to the U.S. chemical industry.

[7/] See, e.g., Sections 303, 304, 503 and 505 of the Trade and Tariff Act of 1984; 98 Stat. 3001, 3005, 3019 and 3021.

2. Any Free Trade Agreement with Canada Should Contain Appropriate "Country of Origin" Provisions to Prevent Third Country Pass-through or Simple Transformation to Circumvent U.S. or Canadian Tariffs.

A minimum level of "Canadian value added" must be a condition for duty-free entry into the United States under a bilateral free trade agreement with Canada. This criterion would be fully consistent with the goal of enhanced U.S./Canadian trade and would help to prevent potential abuses of a special trade relationship through transshipment practices. The value added threshold must be high enough to prevent products of third countries being passed through Canada to the United States after only formulation or minor finishing operations have been performed in Canada. OCITA will shortly be submitting specific comments on appropriate definitions for rules of origin.

3. A Free Trade Agreement with Canada Should Provide for the Mandatory Reimposition of Duties in the Event of Non-Fulfillment of the Conditions of the Agreement.

Any U.S./Canada bilateral free trade agreement should include a "snap-back" provision under which United States import duties eliminated under the agreement automatically return to column 1 rates if the conditions of the free trade agreement are no longer fulfilled. For example, if investment restrictions were reimposed by Canada or if Canada imposed a new non-tariff barrier to U.S. exports, then the duties on imports from Canada should snap-back.

D. To Avoid Impairment of Benefits, a Free Trade Agreement with Canada Should Also Address Other Issues, Such as How Temporary Trade Distortions Caused by Currency Fluctuations and Injury to a Domestic Industry by Duty-Free Entry of Products Will be Handled.

Two difficult subjects that OCITA believes must also be addressed in the context of bilateral free trade negotiations with Canada are how to handle temporary trade distortions caused by currency fluctuations and what to do if a domestic industry is injured by the duty-free entry of products under an agreement. Consideration should be given to imposition of a surcharge to correct the temporary trade distortions in the first instance and to imposition of temporary safeguard duties to eliminate the injury in the second. In this regard, OCITA urges that the U.S. trade remedy statutes will continue to apply to imports from Canada.

E. Any Bilateral Free Trade Agreement with Canada Should Contain an Adequate and Binding Dispute Settlement Mechanism.

OCITA believes that any bilateral free trade agreement with Canada should contain procedures for the settlement of disputes between Canada and the United States that arise as to interpretation of the terms of the Agreement or the fulfillment of its obligations. In addition, the notification and consultation provisions of the Agreement should be binding.

We do not believe that the procedures contained in the U.S./Israel agreement are adequate for these purposes. Instead, we recommend that dispute settlement procedures in any U.S./Canada agreement: provide for a rapid and effective settlement of disputes; contain mechanisms for a binding decision in the event of a stalemate; and, most importantly, provide for significant industry input and consultation in the dispute settlement process.

Finally, OCITA stresses that, by the term "dispute settlement mechanism," we do not refer to the establishment of a means to bypass existing U.S. and Canadian trade remedy laws. We understand that there has been some attempt by the Canadian negotiators to include, under dispute settlement negotiations, provisions which would replace existing antidumping and countervailing duty laws in the United States and Canada. OCITA strongly opposes such efforts. We believe that these laws should remain in full force and effect, separate and apart from any free trade agreement.

F. The U.S. Government Should Consult with the U.S. Chemical Industry and Provide Adequate Opportunities for Timely Industry Input During U.S. Negotiations With Canada.

As mandated by the Trade Act of 1974, and reaffirmed in the Trade Agreements Act of 1979, [8] a structure of formal industry sector advisory committees (ISACs) representing U.S. companies from all segments of U.S. business is in place. There is a widespread perception that the ISACs were not advised or consulted adequately in the course of developing the U.S./Israel Free Trade Agreement nor in earlier and subsequent U.S. Government discussions with Mexico which led to the signing of the U.S./Mexican Subsidies Agreement. OCITA strongly urges the U.S. Government to avail itself fully of this mechanism for eliciting private sector input on a timely basis if any consultations on a U.S./Canada bilateral agreement proceed.

Moreover, we believe that appropriate mechanisms must exist to allow for additional industry input, such as from OCITA and trade associations, into any such negotiations so that all significant considerations can be addressed prior to any commitments having been made.

IV. CONCLUSION

OCITA believes that, if the issues raised in this paper are adequately addressed in any free trade agreement with Canada, then trade benefits mutually advantageous to both countries would be achievable through such an agreement.

The U.S. chemical industry is an industry that could be very affected by such a free trade agreement with Canada. Therefore, we want to be closely involved with the negotiations and to be consulted by the Government as the agreement takes final form. A free trade agreement with Canada must not be only an agreement for the sake of "an agreement." Tariff elimination alone is not acceptable. An FTA must provide a sound basis for truly "free" trade on both sides of the U.S. and Canadian border. U.S. chemical industry support of such an agreement will be conditioned upon each of our concerns being adequately addressed in any agreement Congress is asked to ratify.

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[8] Section 135 of the Trade Act of 1974 (19 U.S.C. § 2155), as amended by Section 1103 of the Trade Agreements Act of 1979, 93 Stat. 308-10.

Comments By

Renold D. Thompson
President and Chief Executive Officer
Oglebay Norton Company
Cleveland, Ohio

Concerning

UNITED STATES/CANADA FREE TRADE AREA AGREEMENT NEGOTIATIONS

To

Committee on Finance
United States Senate

August 13, 1987

The current negotiations between the United States and Canada regarding the establishment of a Free Trade Area Agreement threaten the long-standing United States maritime policy essential to the United States Merchant Marine and shipyard industry. We wish to alert you to the dangers of including the Cabotage Laws of the United States - the Jones Act - in the Free Trade Area Agreement and ask your support in seeking the complete removal of any issues pertaining to maritime services from the bargaining table.

Another proposal being considered as the official United States negotiating position is to "grandfather" existing United States maritime programs and provide Canadian maritime interests the benefits of equal participation in any future United States maritime policies. Considering the advantage Canadian maritime interests would enjoy in economic, regulatory and fiscal terms under such an arrangement, no objective analysis could argue for the survival of a disadvantaged United States flag fleet and vital shipyard mobilization base in such a hostile, competitive environment.

If Canada is allowed access to current or future United States maritime programs, it is quite likely that America's other trading partners will seek similar privileges, and may be empowered to do so by existing treaties. Thus, Congress would be reduced to a caretaker role, serving only as a witness to the dismantling of the United States Merchant Marine.

The United States flagship companies on the Great Lakes have substantial investments in vessel assets, employ United States citizens as seamen, and in 1986 carried 91 million tons of cargo between United States ports. Many of the mortgages on the Great Lakes vessels are guaranteed by the United States Maritime Administration Mortgage Insurance Program, and none have been built with United States government subsidy. These investments by Great Lakes maritime interests were made with the understanding that the United States government would not change the historic reservation of coastwise trade for United States flag, United States owned and United States crewed vessels.

Canadian flag vessels have been built with substantial Canadian government subsidies or built overseas at low cost in foreign government-subsidized shipyards. Thus, the capital costs of Canadian vessels are substantially lower than United States vessels - Canadian crew operating costs are less than United States crew cost because of the dollar disparity, Canadian government pension health benefits and favorable wage agreements. It is for these reasons that United States flag vessels are able to serve only in the United States domestic trade, and only the Jones Act restrains Canadian fleets from dominating the entire Great Lakes market. A full explanation of the disparities between United States and Canadian Great Lakes fleets is contained in the United States Government Accounting Office Report, "Great Lakes Shipping-U.S.-Flag Share of the U.S./Canada Trade on the Great Lakes" GAO/RCED-86-115, May 1986.

We strongly oppose any change in the United States maritime law or policy which would allow Canadian or other foreign corporations to operate foreign-built or foreign-crewed ships in the coastwise trade of the United States. Such a move would deny United States maritime interests a "level playing field" and force United States shipowners out of business as we comply with United States laws with their higher costs while Canadian or foreign competitors come in with their lower costs.

We respectfully urge you to advise the United States Trade Representative and the Economic Policy Council that United States maritime programs are not subject to negotiation. Without such a clear statement, the future of United States maritime industries and United States national security are imperiled.

OLSON'S, INC.
BOTTINEAU, ND 58318
PHONE (701) 228-2273
ND WATTS 800-732-2361

LEADERSHIP
YOU CAN
COUNT ON

August 10, 1987

The Honorable Lloyd M. Bentsen
Chairman
Committee on Finance
United States Senate
205 Dirksen Building
Washington, D.C. 20510

Dear Mr. Chairman:

This letter is in response to the request of your committee for comments on the U.S.-Canada free trade negotiations.

To simply state my position, I favor total and complete free trade between the U.S. and Canada.

BACKGROUND:

I own a small business in Bottineau, ND, with 2 million in gross sales and 12 employees. Our major product is farm equipment sales and retail sales. Bottineau is located approximately 12 miles from the U.S.-Canada border, and historically, 40% of our sales have gone to customers in Canada.

ISSUE:

Farm equipment and parts have been exempt from all duties and tariffs for many years; however, a major portion of our sales-support (Service) is not included. Many other items that are allied to our business carry duties or tariffs. Some of these items are: oil, bearings (if also used in non-agricultural products), anti-freeze, farmsted grounds care equipment, and the list goes on.

If we could be rid of the tariffs, duties, etc. on service, we could expand our sales a significant amount, possibly as much as 20%. This would come about by being able to perform warranty and other service on the farm. At the present time we have to transport the equipment back to our shop, increasing cost and thus limiting sales.

Another cost increasing factor, and therefore a sales limiter, is the additional paper work caused by customs and immigration. Paper work is totally sexless, it produces absolutely nothing. The "Service" fees, brokerage fees, incidential charges, etc. serve no useful purpose except to inhibit trade between two very similar people in two nations seperated by an imaginary boundary.

Boundary incidents caused by overzealous customs officials (both Canadian and American) have caused more hard feelings and misunderstandings, where there should be none, then the foreign policy blunders of all administrations put together.

CONCLUSION:

I could go into detail on all of the above mentioned; however, I'm sure your committee is well aware of tariff rates, duties, service fees, and the like. Understanding and good will between people anywhere can best be promoted by ripping down all artifical barriers.

Sincerely,

Oscar M. Olson, President
Olson's Inc.

Comments of

OUTBOARD MARINE CORPORATION
100 SEA-HORSE DRIVE
WAUKEGAN, ILLINOIS 60085-2195

Concerning the U.S.-Canada
Free Trade Area Negotiations

Summary

Outboard Marine Corporation ("OMC") is the world's largest producer of outboard motors, and is also a producer of recreational boats. OMC strongly supports in principle the establishment of a U.S.-Canada free trade area ("FTA"), and believes that the inclusion of outboard motors, recreational boats and parts thereof in an FTA would be to the mutual advantage of producers, workers and consumers in both the United States and Canada.

OMC considers it vital, however, that a U.S.-Canada FTA agreement incorporate (1) a provision for strict country-of-origin rules applicable to both outboard motors and boats that must be met before an item is accorded zero-duty treatment, and (2) rules preventing imports through either country from avoiding remedies imposed under either country's trade laws.

With regard to rules of origin, OMC strongly supports the U.S. government's proposal applicable to outboard motors that would require both a change in tariff classification and, in the case of a change from a parts heading to a finished product heading, local content of at least 35 percent. OMC also urges the extension of these rules of origin to cover recreational boats.

With regard to trade remedies, OMC would strongly support a provision in a U.S.-Canada FTA for coordinated enforcement of the two countries' antidumping laws. The integration of U.S. and Canadian industry frequently leads to specialization in the production process, whereby the manufacture of parts and components occurs on one side of the border and final assembly of the finished product occurs on the other. However, an undesirable consequence of this common form of integration can be the loss of dumping protection in the country where no final assembly occurs. This problem could be remedied by the inclusion in a U.S.-Canada FTA agreement of a provision allowing integrated U.S.-Canadian industries to petition antidumping authorities in either country to initiate a "North American" antidumping investigation, regardless of whether the petitioning industry performs final assembly of the product in the country where the petition is lodged.

Comments of Outboard Marine Corporation Concerning the U.S.-Canada Free Trade Area Negotiations

Outboard Marine Corporation ("OMC") has for many years been the world's largest producer of outboard motors, and more recently has become a producer of a variety of recreational boats. OMC manufactures outboard motors and parts under the Johnson, Evinrude and OMC brand names. OMC has manufacturing facilities in 11 states, employing more than 10,000 people, and also has production facilities in Canada, the European Community, Australia, Hong Kong and Mexico. OMC's Canadian subsidiary -- Outboard Marine Corporation of Canada Ltd. -- is located at Peterborough, Ontario, and engages in the manufacturing, marketing and distribution of outboard motors and parts.

OMC strongly supports in principle the establishment of a U.S.-Canada free trade area ("FTA"), and believes that the inclusion of outboard motors, outboard motor parts and recreational boats in an FTA would be to the mutual advantage of producers, workers and consumers in both the United States and Canada. OMC considers it vital, however, that a U.S.-Canada FTA agreement incorporate (1) a provision for strict country-of-origin rules applicable to both outboard motors and boats that must be met before an item is accorded zero-duty treatment, and (2) rules preventing imports through either country from avoiding remedies imposed under either country's trade laws.

1. Rules of Origin

OMC strongly supports the U.S. government's proposed rules of origin applicable to outboard motors that would require both a change in tariff classification and, in the case of a change from a parts heading to a finished product heading, local content of at least 35 percent. OMC also urges the extension of these rules of origin to cover recreational boats, for the reasons set forth below.

Under the proposed Harmonized System of tariff classifications, outboard motors would be classified under heading 8407, and parts of outboard motors under heading 8409. As we understand the proposed rules of origin for the U.S.-Canada FTA, the assembly of parts into finished products would transform the parts from one heading to another, but would not effect a change in country of origin for duty assessment purposes unless the value of materials that are the product of the country of assembly plus the direct cost of assembly operations constitutes at least 35 percent of the export value of the assembled article.

OMC believes that these proposed rules of origin are essential elements of an FTA agreement that embraces outboard motors, recreational boats, and parts thereof. Foreign manufacturers must not be permitted to take advantage of a free trade area to manufacture outboard motors in Canada and ship them duty-free to the United States (or vice versa) unless the manufacturer undertakes a substantial local investment in plants, equipment and components. Accordingly, OMC urges adoption of the proposed rules of origin as they relate to outboard motors.

The same proposed rules of origin would not, however, be applied to boats assembled from imported hulls or parts. Under the Harmonized System, hulls, unfinished or incomplete vessels, and unassembled or disassembled vessels are all classified under heading 8906 if the parts "do not have the essential character of a vessel of a particular kind." Once assembled, the boats and vessels are classified under a range of headings from 8901 to 8905. This change of heading would thus be sufficient to change the country of origin of the completed vessel, without requiring any threshold percentage of local content.

For this reason, OMC urges that in addition to a change in heading, the same 35 percent local content requirement proposed for the assembly of outboard motors should be applied as well to the assembly of imported hulls or other boat parts into finished boats. The U.S. marine industry has undergone a dramatic change in structure in recent months, in which the leading U.S. manufacturers of outboard motors and other marine propulsion equipment -- including OMC -- have acquired U.S. boat builders. This structural change means that the U.S. marine industry will be increasingly dependent on the marketing of boat-motor-trailer "package" combinations. Both of the existing Canadian outboard motor producers are owned by U.S.-based producers. However, while the U.S. industry engages in the production of outboard motors in both Canada and the United States, their boat-building operations are located entirely in the United States. The Canadian tariff rates applicable to both outboard motors and boats are currently higher than the U.S. rates, and the Canadian rate applicable to most of the relevant boats -- 15 percent -- is substantially higher than the 9.2 percent rate applicable to outboard motors.

As a result, the elimination of duties on either outboard motors or recreational boats, but not on both, would defeat the purpose of the FTA negotiations by failing to include both major components of the boat-motor package. In addition, OMC believes it essential that any tariff reductions negotiated for outboard motors and boats be done concurrently and be phased in at the same rate. This is vital if the FTA is to fully benefit the U.S. marine propulsion and related boat-building industries.

2. Trade Remedies

OMC would strongly support a provision in a U.S.-Canada FTA for coordinated enforcement of the two countries' antidumping laws, in order to eliminate the potential for avoidance of U.S. and Canadian trade remedies by foreign competitors. The integration of U.S. and Canadian industry frequently leads to specialization in the production process, whereby the manufacture of parts and components occurs on one side of the border and final assembly of the finished product occurs on the other. However, an undesirable consequence of this common form of integration can be the loss of dumping protection in the country where no final assembly takes place. This is due to the "like product" requirement found in the GATT Anti-Dumping Code and in U.S. and Canadian dumping laws. This situation permits foreign competitors of integrated North American industries to dump freely into a large segment of the North American market, and unduly discourages efficient integration across the U.S.-Canadian border.

This problem could be remedied by the inclusion in a U.S.-Canada FTA agreement of a provision allowing integrated U.S.-Canadian industries to petition antidumping authorities in either country to initiate a "North American" antidumping investigation, regardless of whether the petitioning industry performs final assembly of the product in the country where the petition is lodged. The antidumping authorities in that country would notify the antidumping authorities in the other country, and each would then begin their own separate less-than-fair-value calculations and determine their own dumping margins, sharing information and coordinating efforts as necessary. Injury would be determined by the proper authorities in the country where the petition was lodged, but on a North American-wide basis, that is, taking into account injury data pertaining to the entire U.S.-Canadian market. Such an arrangement would be fully consistent with the GATT Anti-Dumping Code.

Coordinated antidumping enforcement would have several desirable effects: it would encourage efficient integration by permitting a U.S.-Canadian industry that performs final assembly only on one side of the border to obtain needed dumping relief in the entire U.S.-Canadian market; it would foster communication and cooperation between antidumping authorities in the two countries; and it would reduce the harmful effects of dumping in the U.S.-Canadian market.

Provided that steps such as those outlined above are taken to ensure that a U.S.-Canada FTA would achieve its intended objectives, OMC strongly supports an FTA that includes outboard motors, recreational boats and parts thereof, and believes that such an FTA would benefit the interests of both countries.

Pfizer

PFIZER INC., 235 EAST 42nd STREET, NEW YORK, N. Y. 10017-5755

EDMUND T. PRATT, JR.
Chairman of the Board

August 11, 1987

The Honorable Lloyd Bentsen
Chairman
Finance Committee
United States Senate
Washington, D.C. 20510

Dear Lloyd:

In response to your July 27 request for public comment, I am pleased to express the strong support of the Emergency Committee for American Trade (ECAT) for the U.S.-Canada free trade negotiations provided that they cover the areas of intellectual property protection, investment, and services.

We look forward to commenting on the prospective agreement when it is submitted to you by the President for congressional approval subject to the "fast track" authority.

Sincerely,

Edmund T. Pratt, Jr.

PHILLIPS PETROLEUM COMPANY

BARTLESVILLE, OKLAHOMA 74004
918 661-1050

August 12, 1987

Government Relations

ALAN S. HEGBURG
Administrator - International Affairs

Laura Wilcox
Hearing Administrator
Committee on Finance
Room SD-205
United States Senate
Washington, D. C. 20510

Dear Ms. Wilcox:

I am responding to the Senate Finance Committee request for comments on the U.S.-Canada free trade area negotiations.

In the field of tariff negotiations, it would seem worthwhile for the U.S. and Canada to review the possibility of each country removing tariffs on those products being imported into the country for which no comparable domestic production exists. This approach could be particularly appropriate in the chemical sector where some exports of U.S. produced chemicals face certain Canadian tariff barriers even though there is no equivalent Canadian production.

It is my understanding that the Administration may be considering alternative negotiating strategies in this sector, although it is unclear exactly the results that have been achieved to date.

ASH:ejo

cc: Mary McAuliff

STATEMENT OF POLAROID CORPORATION
ON THE U.S.-CANADA
FREE TRADE AREA NEGOTIATIONS

This statement, filed on behalf of Polaroid Corporation ("Polaroid"), is in response to the July 27, 1987 Committee on Finance request for public comment on the U.S.-Canada Free Trade Area ("FTA") negotiations.

Polaroid is headquartered in Cambridge, Massachusetts, and produces its instant print film in Waltham, Massachusetts. The company is a major U.S. producer of photographic film and related supplies.

Polaroid strongly endorses the negotiations arrived at establishing a U.S.-Canada FTA. The company's specific interest in the negotiations is the immediate reciprocal elimination of duties between the two countries on instant print photographic film. Immediate removal of trade barriers on the product will benefit both nations and contribute toward achieving the goal of free and fair trade between the United States and Canada.

The Canadian duty on instant print film is nearly three times higher than the U.S. duty rate, despite the fact that there is no Canadian production of instant print film. Our research in Ottawa reveals that the higher Canadian tariff (i.e., 10.2 percent *ad valorem*) was originally introduced to protect the Canadian film manufacturing market. It is also important to note that instant print cameras enter Canada duty free, making the high duty on film all that more unjustifiable..

Despite the high tariff, the U.S. exported over $14 million of instant print film to Canada in 1986. If the Canadian tariff is removed, U.S. exports would increase which would lead to new employment in this country and a reduction in the $23 billion U.S. trade deficit with Canada.

There are additional compelling reasons why the Canadians themselves should welcome a U.S. Government request to eliminate its duty immediately.

The Canadian (as well as U.S.) draft Harmonized System only captures instant print photographic film. Therefore, reciprocal duty eliminations will only effect trade of this particular product.

Moreover, Japanese film manufacturers such as Fuji Film are importing instant print film into Canada; elimination of the duty on U.S. film would allow Polaroid to be more competitive in Canada.

In summary, we urge the Committee on Finance to express its support for an FTA with Canada and to encourage the U.S. and Canadian negotiators to agree to an immediate reciprocal elimination of the tariff on instant print photographic film.

EXECUTIVE SUMMARY

- Polaroid Corporation endorses negotiations leading to a U.S.-Canada Free Trade Area and requests Committee support for immediate reciprocal elimination of duties on instant photographic film.
- The Canadian duty on instant print film is nearly three times higher than the U.S. duty rate.
- There is no Canadian production of instant print film.
- The new draft U.S.-Canadian Harmonized System specifically captures instant print film; therefore, duty elimination will be confined to this product only.
- Immediate duty elimination on the film will make U.S. exporters more competitive with Japanese firms in the Canadian market.

Comments of PPG Industries, Inc.
Concerning the U.S. Canada Free Trade Area Negotiations

Summary of PPG's Comments
on the U.S.-Canada free trade area negotiations

1. PPG Industries, Inc. fully supports the objectives of the U.S.-Canada Free Trade Agreement initiative being pursued by the Administration. It encourages the U.S. negotiators to achieve the mutual elimination of U.S. and Canadian import duties on manufactured products in the flat glass, chemicals[1] and coating and resin product sectors. It does not believe that as between the United States and Canada any of the tariff categories which it has identified in its comments are import sensitive.

2. PPG therefore recommends the elimination of duties effective with the ratification of the trade agreement, or over a short period of years rather than the 10-year span envisaged for import sensitive products.

3. At the same time, PPG believes that the effectuation of duty-free treatment of this cross-border commerce should be fully reciprocal; that the U.S. should not unilaterally make its tariff eliminations immediately or in the short term effective if Canada reserves the right to stage its tariff eliminations over the full 10-year period.

4. PPG is also concerned that U.S. duty elimination on products that are not manufactured in Canada could invite transshipment through Canada of goods not of Canadian origin. To illustrate this concern, PPG understands that USTR has recently tabled for duty elimination Harmonized Tariff Headings 7004.10.20, 7004.90.05, 7004.90.25, and 7004.90.30. These pertain to colored and clear sheet glass, which is not produced in Canada, or in the United States. Sheet glass is predominantly produced now in developing countries and Eastern Bloc countries who eagerly export their surplus production to the United States. In many end-use markets, price is the controlling consideration and quality is not a significant deterrent. Thus, the elimination of U.S. import duties on sheet glass now on the table would, PPG believes, be an open invitation for transshipment of developing country and Eastern bloc product to avoid the regulatory effect of existing U.S. duties as to imports from those countries. To prevent this result, the U.S.-Canada agreement should provide a special definition for the term "substantial transformation", so that the benefits of the agreement will be limited to goods that are truly of North American origin.

5. PPG invites attention to the quite substantial disparity in the proposed U.S. Harmonized Tariff MFN rates for glass and coatings and resins products in comparison with the rates for Canada, the EEC and Japan. In a large proportion of instances, the U.S. proposed duty is significantly lower than that proposed by those major trading partners. The U.S.-Canadian Free Trade Area Trade Negotiations should eliminate disparities in tariff treatment by mutual elimination of duties. The existing disparity in tariff treatment in its products gives emphasis to PPG's request that the elimination of duties be carried out *pari passu*.

6. PPG appreciates the support of the Committee of Finance for the successful conclusion of the negotiations. It requests that the Committee indicate to the USTR's Director of Trade Negotiations its interest in and support for the principles and information presented in these comments so far as flat glass, fiber glass and coatings and resins products identified by the Harmonized Code Headings specified herein are concerned.

1. PPG Industries, Inc. is a multinational manufacturer of flat glass, chemicals and coating and resin materials. It has manufacturing facilities in the United States, Canada and other countries. It fully supports the objectives of the U.S.-Canada Free Trade Agreement initiative being pursued by the Administration. It encourages the U.S. negotiators to achieve the mutual elimination of U.S. and Canadian import duties on manufactured products in the flat glass, chemicals*/ and coating and resin product sectors. It does not believe that as between the United States and Canada any of the tariff categories are import sensitive.

2. PPG therefore recommends the elimination of duties effective with the ratification of the trade agreement, or over a short period of years rather than the 10-year span envisaged for import sensitive products. At the same time, PPG believes that the effectuation of duty-free treatment of this cross-border commerce should be fully reciprocal; that the U.S. should not unilaterally make its tariff eliminations immediately or in the short term effective if Canada reserves the right to stage its tariff eliminations over the full 10-year period.

3. PPG is also concerned that U.S. duty elimination on products that are not manufactured in Canada could invite transshipment through Canada of goods not of Canadian origin. PPG is aware of the significant concern over duty-avoidance and quota-avoidance transshipment through Canada which may have occurred

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*/ PPG's interests in relation to chemicals are being represented by the Chemical Manufacturing Association's Office of the Chemical Industry Trade Advisor which has submitted written views to the USTR concerning the mutual elimination of intra Canada-U.S. trade chemical tariffs.

in the steel, electronic product, textile and apparel, certain specialized chemicals, and fresh cut flower product sectors.

4. To illustrate this concern, PPG understands that your office has recently tabled for duty elimination Harmonized Tariff Headings 7004.10.20, 7004.90.05, 7004.90.25, and 7004.90.30. These pertain to colored and clear sheet glass, which is not produced in Canada, or in the United States. Sheet glass is predominantly produced now in developing countries and Eastern Bloc countries who eagerly export their surplus production to the United States. While not of the same quality as domestic or Canadian float glass, imported sheet glass, colored and clear, are sold at deep margins of underselling of domestic float glass. In many end-use markets, price is the controlling consideration and quality is not a significant deterrent. Thus, the elimination of U.S. import duties on sheet glass now on the table would, PPG believes, be an open invitation for transshipment of developing country and Eastern bloc product to avoid the regulatory effect of existing U.S. duties.

5. In the past, the problem of transshipment has generally been addressed by requiring that the imported product have a certain percentage of local content, normally 35%, before it can qualify for duty-free treatment. This is the approach taken in the Caribbean Basin Initiative, for example. While PPG strongly supports the imposition of a local content requirement, it has been the company's experience that this requirement alone may not prevent transshipment. In the case of bulk items in particular, the value added by resizing or packaging may be sufficient to satisfy local content requirements. With respect to paints or resins imported into Canada from some

third country in bulk form, for example, simply transferring the product to one-gallon cans could add enough value to satisfy a 35% local content requirement. Resizing imports of glass can have the same result. Yet in each case, it is plain that no substantial transformation has occured, and that the potential for avoidance of duties by minor processing or packaging of the product in Canada or the United States would remain. To prevent this result, PPG recommends that a special definition of "substantial transformation" be included in the U.S.-Canada agreement that will not permit duty-free treatment to accrue to products which are, in fact, not of North American origin. One possibility would be that the transformation in Canada or the United States must be sufficient to cause the article to be classified under a different Harmonized Code four-digit group. Such a standard would be administratively simple, and would increase the likelihood that any "transformation" was in fact substantial. PPG would be pleased to work with the Committee to develop a solution to this problem.

6. PPG invites attention to the quite substantial disparity in the proposed U.S. Harmonized Tariff MFN rates for glass products in comparison with the rates for Canada, the EEC and Japan. In a large proportion of instances, the U.S. proposed duty is significantly lower than that proposed by those major trading partners. It is the function of the U.S.-Canadian Free Trade Area Trade Negotiations to eliminate disparities in tariff treatment by mutual elimination of duties. The existing disparity in tariff treatment in the Company's products gives emphasis to PPG's request that the elimination of duties be carried out pari passu.

Identification and Comparison of U.S., Canadian, EEC, and Japanese MFN duty rates on flat glass and fiber glass in the proposed Harmonized Schedules of each country.

(Underscored duties of other countries exceed U.S. duties for the like Harmonized Schedule category).

Heading	U.S.	Canada	E.E.C.	Japan
7005.10	4.9%	5.5%	3.8%	7.9%
7005.21		4%	3.8%	7.9%
7005.21.10	16.1¢/m² (4.6% equiv.)			
7005.21.20	6.3%			
7005.29		4%	3.8%	
7005.29.010				5.8%
7005.29.020				7.9%
7005.29.05	20.8¢/m² (8.45% equiv.)			
7005.29.15	16.1¢/m²			
7005.29.25	6%			
7006				1.9%
7006.00A			5.8%	
7006.00.10		5.5%		
7006.00.40	4.9%			
7007.11	6.2%			6.6%
7007.11A			Free	
7007.11B			5.8%	
7007.11.11		17.5%		
7007.11.19		9.2%		
7007.11.20		Free		
7007.11.30		10.2%		
7007.19	6.2%	10.2%	5.8%	5.8%

Heading	U.S.	Canada	E.E.C.	Japan
7007.21				Free
7007.21A			Free	
7007.21B			5.8%	
7007.21.10	5.5%			
7007.21.11		17.5%		
7007.21.19		9.2%		
7007.21.20		Free		
7007.21.30		10.2%		
7007.21.50	5.5%			
7007.29	5.5%	10.2%	5.8%	5.8%
7008.00	4.4%	10.2%	5.3%	1.9%
7019.10			9.5%	4.6%
7019.10.21		12.5%		
7019.10.29		15%		
7019.10.30	6.2%			
7019.10 40	7.2%			
7019.10.60	6%			
7019.31.00	6.2%		9.5%	4.6%
7019.31.10		15%		
7019.31.90		25%		
7019.32	6.2%	25%	6.5%	4.6%
7019.39		10.2%	6.5%	4.6%
7019.39.10	6.2%			
7019.39.50	6.2%			
7019.90	6.2%		9.5%	4.6%
7019.90.10		25%		
7019.90.90		10.2%		

7. The volume and value of U.S. imports in the above listed tariff categories as well as other categories of flat glass and fiber glass products (to assist in evaluating the risk of transshipment) from Canada, the EEC, Japan and all other countries are as shown in the following table:

U.S. Imports of Flat Glass and Fiber Glass Products
from its principal Harmonized Code Trading Partners, 1985
(Quantity in 000's units; Value, FAS origin in $000's)

Heading	Commodity	Countries of Origin				Total
		Canada	the EEC	Japan	Others	Imports
Grand total of the above headings:		$69,466	$108,768	$111,569	$149,299	$439,102

Source: Import data, Bureau of Census, IM 145/146 tapes.

8. PPG requests the concurrent mutual elimination of U.S. and Canadian duties on the products of PPG's Coatings and Resins Group. As in the case of glass products, PPG notes that the proposed U.S. Harmonized Schedule in most instances indicates an MFN duty rate which is lower than the ad valorem equivalent of the existing 1987 TSUS MFN rate, indicating a reduction in the U.S. duty should the proposed Harmonized Schedule MFN rates be promulgated. For purposes of mutual, concurrently phased elimination of U.S. and Canadian import duties on coatings and resins products like or competitive with its products, PPG identifies the applicable Harmonized Code Headings in the following table.

9. As in the case of glass products, PPG invites attention to the quite substantial disparity in the proposed U.S. Harmonized Tariff MFN rates applicable to coating and resin products in comparison with the rates for Canada, the EEC

and Japan. In a large proportion of instances, the U.S. proposed duty is significantly lower than that proposed by those major trading partners. It is the objective of the U.S.-Canadian Free Trade Area Trade Negotiations to eliminate disparities in tariff treatment by mutual elimination of duties. The existing disparity in tariff treatment in the Company's products gives emphasis to PPG's request that the elimination of duties be carried out *pari passu*.

Identification and Comparison of U.S.,
Canadian, EEC, and Japanese MFN duty rates on coatings and resins
in the proposed Harmonized Schedules of each country.
(Underscored duties of other countries exceed U.S. duties
for the like Harmonized Schedule category).

Heading	U.S.	Canada	E.E.C.	Japan
3208				
3208.10.00	3.7%	9.2%	10.0%	4.8%
3208.20.00	3.6%	9.2%	10.0%	4.6%
3208.90.00	3.2%	9.2%	10.0%	4.8%
3209				
3209.10.00	5.1%	9.2%	10.0%	6.0%
3209.90.00	5.9%	9.2%	10.0%	6.0%
3210.00.00	1.8%	Free	7.1%	5.8%
3215				
3215.11.00	1.8%	12.5%	6.6%	5.8%
3215.19.00	1.8%	12.5%	6.6%	5.8%
3215.90.10	3.1%	12.5%	6.9%	5.8%
3215.90.50	1.8%	12.5%	7.1%	5.8%
3810				
3810.10.00	5%	12.5%	6.6%	5.8%
3506.91.00	2.1%	12.5%	7.1%	5.8%
3506.99.00	2.1%	12.5%	7.0%	5.8%

10. The volume and value of U.S. imports in the above listed tariff categories from Canada, the EEC, Japan and all other countries are as shown in the following table:

U.S. Imports of Coating and Resin Products
from its principal Harmonized Code Trading Partners, 1985
(Quantity in 000's units; Value, FAS origin in $000's)

Heading	Commodity	Countries of Origin				Total
		Canada	the EEC	Japan	Others	Imports
Grand total of the above headings:		120,325	109,972	120,292	2,698,479	2,941,068
		$39,321	$129,141	$43,692	$35,001	$563,155

Source: Import data, Bureau of Census, IM 145/146 tapes. The grand total is that of the constituent coatings and resins TSUS #s listed above, without duplication.

11. PPG also requests that your secure the mutual elimination of U.S. and Canadian import duties on key raw materials used in the manufacture of finished coating and resin products. Many of these industrial chemicals are not manufactured in Canada, yet Canada subject their importation to duty. The Harmonized Headings which identify those basic raw materials are identified in the following table. As in the case of glass and finished coatings and resins products, PPG invites attention to the quite substantial disparity in the proposed U.S. Harmonized Tariff MFN rates applicable to raw materials for use in manufacturing coating and resin products in comparison with the rates for Canada, the EEC and Japan. In a large proportion of instances, the U.S. proposed duty is significantly lower than that proposed by those major trading partners. The U.S.-Canadian Free Trade Area Trade Negotiations should eliminate disparities in tariff treatment by mutual elimination of duties carried out *pari passu*.

Identification and Comparison of U.S.,
Canadian, EEC, and Japanese MFN duty rates on raw materials
for use in the manufacture of finished coatings and resins
in the proposed Harmonized Schedules of each country.
(Underscored duties of other countries exceed U.S. duties
for the like Harmonized Schedule category).

Heading	U.S.	Canada	E.E.C.	Japan
3212.90.00.10	3.1%	9.2%	10%	3.1%
3212.90.00.50	3.1%	9.2%	10%	6.2%
3907.10.00	2.2¢/kg +7.7%	8.7%	7.6%	4.1%
3907.20.00	2.2¢/kg +7.7%	10%	7.6%	4.1%
3907.30.00	6.1%	8.7%	7.6%	4.6%
3907.40.00	5.8%	11%	8.0%	4.1%
3907.50.00	3.1¢/kg +9%	10%	8.0%	5.1%
3907.60.00	3.1%/kg + 9%	10%	8.0%	4.6%
3907.91.10	5.8%	10%	8.0%	4.6%
3907.91.50	0.9¢/kg +9%	10%	8.0%	4.6%
3907.99.00	3.1¢/kg +9%	10%	8.0%	4.6%
3909.10.00	6.9%	10%	6.9%	5.8%
3909.20.00	6.9%	10%	6.9%	5.8%
3909.30.00	6.9%	7.1%	6.9%	5.8%
3909.40.00	6.5%	8.7%	6.9%	5.8%
3909.50.10	Free	9.3%	8.4%	4.6%
3909.50.20	2.1%	9.3%	8.4%	4.6%
3909.50.50	6.3%	6.8%	8.4%	4.6%

12. Conclusion. PPG supports the commendable and difficult endeavor of the U.S. Trade Representative to consummate a free trade agreement with Canada by the existing deadline of October 1. It submits these comments in support of the mutual elimination of U.S. and Canadian import duties, pari passu, on the products manufactured by the Company in the United States, many of which are also manufactured in Canada. PPG appreciates the support of the Committee of Finance for the successful conclusion of the negotiations. It requests that the Committee indicate to the USTR's Director of Trade Negotiations its interest in and support for the principles and information presented herein so far as flat glass, fiber glass and coatings and resins products identified by the Harmonized Code Headings specified in these comments are concerned.

Respectfully submitted,

PPG INDUSTRIES, INC.

Mr. Harold G. Bittle
Vice President, Licensing & Export Sales
Coatings & Resins Group

Mr. John C. Reichenbach, Jr.
Director, Marketing, Glass Group

Mr. R. Gary Wilson
Director of Corporate Government Affairs

Eugene L. Stewart

Eugene L. Stewart
Terence P. Stewart
Stewart and Stewart
PPG's Special Trade Counsel

Of counsel:
Glenn M. Miller, Esq.
Senior Counsel
PPG Industries, Inc.

Precision Twist Drill Co.

ARTHUR R. BECK
President
Chief Operating Officer

July 14, 1987

President of the United States
Ronald E. Reagan
Washington, D.C. 20500

SUBJECT: **TRADE BARRIERS WITH CANADA**

Dear Mr. President:

I know there has been much discussion with Canada concerning the trade barriers that currently exist. Our company would very much favor the abolishment of all of these current restrictions.

Our company currently does $450,000 worth of business into Canada, and this could easily be well over a million dollars' worth if the current restrictions were abolished. There is a very high cost of doing business added to our product when a distributor purchases from us, and many times this makes our product uncompetitive with the common market countries.

I would hope that a conclusion could be arrived at in the very near future. We would sincerely appreciate your support on this very important matter.

Best regards,

Arthur Beck

ARB:sw

cc: Senator Alan Dixon
Senator Paul Simon
S. London, MCTI

BOX 4002 • CRYSTAL LAKE, ILLINOIS 60014 • 815/459-2040

Precision Twist Drill Co.

ARTHUR R. BECK
President
Chief Operating Officer

May 20, 1987

Governor James R. Thompson
Illinois Statehouse
Springfield, IL 62706

Dear Governor Thompson:

I would like to ask your support with regard to the abolishment of trade barriers that currently exist between Canada and the United States. I understand that you are in favor of this.

Our company currently does about $450,000 worth of business in Canada, and we could greatly increase this number if the current restrictions were abolished. Frankly, we feel that we should be doing a minimum of a million dollars in the Canadian market, but the high cost of our distributors working with us many times makes us very uncompetitive with the common market countries.

Any support you can offer would be most appreciated. Thank you for your help.

Best regards,

Arthur Beck

ARB:sw

cc: J. Beck
J. DeMond
D. Gulbrandsen
B. Matz
J. Glennon

ONE PRECISION PLAZA • CRYSTAL LAKE, ILLINOIS 60014 • 815/459-2040

THE PROCTER & GAMBLE COMPANY
EXECUTIVE OFFICES
1 PROCTER & GAMBLE PLAZA, CINCINNATI, OHIO 45202-3315

The Honorable Lloyd M. Bentsen
Chairman, Senate Committee on Finance
205 Senate Dirksen Office Building
Washington, D.C. 20510

August 14, 1987

Dear Mr. Chairman:

We appreciate the opportunity to comment on negotiations for a U.S.-Canada Free Trade Area. This letter summarizes our views, which are explained in the attachment.

These negotiations are of historic importance. Both countries face an increased challenge in remaining globally competitive. Meeting this challenge is not just important to maintaining our standards of living. It is also significant to our national securities and our abilities to be effective leaders in the world. The improved allocation of resources that should come from an FTA are important to meeting this challenge. Several previous opportunities have been lost; this time, we need to succeed.

The negotiations now appear to be reaching the critical stage, with both sides facing difficult economic and political decisions. We are hopeful the negotiators will not lose sight of the overall needs of both countries as they struggle with specific issues. For instance, loss of the overall agreement because a given problem cannot be resolved will likely result not only in no improvement on that problem, but also losing the larger purpose, which is the overall benefit of an FTA to both countries. The political results of failure, in fact, are likely to exacerbate matters. We do recognize, nevertheless, both the economic and the political need for a broad, comprehensive agreement:

1. Tariffs must be eliminated between both countries on all products. A balanced, ten-year maximum phase out of duties is appropriate for sensitive products. The eligibility rules for determining duty exemption should focus as much on maximizing the mutual economic opportunity as on preventing circumvention.
2. It is important to Canada's future growth that foreign investment is encouraged. It is in that country's interest to provide assurance against a return to the FIRA-based deterrence environment and to match the opportunities that Canada's investors are today actively pursuing in the United States.
3. We share Canada's concern about arbitrary and capricious application of U.S. "unfair trade" laws. While well intended, these laws sometimes obtain absurd results that are not always in our national interest. We can expect increasing use of such tools against us. Therefore, it is mutually desirable to develop a balanced accommodation in this area.
4. An FTA should include a process for harmonizing where desirable, those Federal, Provincial and State regulations that hamper achievement of its full potential.

Very truly yours,

E. L. Artzt
Vice Chairman of the Board and
President, Procter & Gamble International

COMMENTS TO THE FINANCE COMMITTEE
ON THE U.S.-CANADA FREE TRADE NEGOTIATIONS

AUGUST 14, 1987

1. Economic Benefits & Costs of Tariff & Non-tariff Barrier Removals

First of all, we believe that over time the larger total market resulting from an Agreement will provide broad consumer-related economic benefits. Resources will be used more efficiently, rather than being diverted by tariffs and other barriers to trade. There will also be net advantages resulting from improved economies of scale. We note that an economic study made for the Canadian MacDonald Commission anticipates a 13-15% growth in consumer income in Canada from an Agreement and have no reason to doubt its conclusions. We also believe that there will be growth in U.S. consumer income at least proportional to the difference in the sizes of the two economies.

It is too early for us to know exactly what changes in our business will result from an Agreement. However, we can estimate probable general effects. We foresee opportunities for increased sales from a larger market. We also see opportunities for increased efficiencies and are developing plans to take advantage of them. We expect to improve the rationalization of our manufacturing facilities. The result will be production allocated on a cost and market efficient basis. Further, we expect to obtain increased efficiency throughout other areas of our business, such as product development, engineering and purchasing. Today our efforts tend to be fractionated by the existence of both tariff and non-tariff barriers between the two countries.

We have found that some products now made on both sides of the border should only be made on one. The results of this rationalization would not be one-sided. We would plan to increase Canadian production of some products and on others, we will concentrate on U.S. plants.

Today our products sold in the Pacific Northwest have to be transported from other parts of both countries at considerable expense. This is because under the current structure, we have been unable to justify economically the construction of any consumer product plants closer to this market than central California, Kansas and Nebraska in the United States, or in Canada, west of Ontario.

Placing Portland, Seattle and Vancouver in the same market will increase the economic base of that area. In the long term, this change should encourage us and others to consider building manufacturing facilities there. Such actions should stimulate our raw material suppliers also to consider local production. The result would not only build the economy of that region, but also help stabilize it by reducing its current dependence on products with cyclical markets, that have periods of excess demand followed by periods of high unemployment and depression. This would help alleviate the frictions that develop between the two countries from competition over limited markets for some of these cyclical products.

Similar production rationalization could be accomplished by supplying some of our products from Hamilton or Brockville into the U.S. mid-west, and vice versa.

Importantly, we do not believe that the benefits will be one-sided; rather, we believe that both countries will benefit in the long term. Further, we do not believe that any meaningful long term macroeconomic costs will be encountered, only interim adjustment problems. Therefore, low tariffs, and those where there is little likelihood of economic disruption should be eliminated immediately upon implementation of the Agreement. To minimize the interim adjustment problems, the remaining duties should be eliminated in equal stages over a five-year period, with 10 years only being used where there is exceptional sensitivity, including areas of significant workplace dislocations.

2. Restrictions on Direct Investment

We support free and open markets for investment, just as we do for trade. We are basically satisfied with the situation as it is currently administered in Canada since the revocation of the Foreign Investment Review Agency, although we understand that other industries continue to face a closed market. It is important to Canada's own economic development that it both open its own market further and provide guarantees against a return to the FIRA approach. An open market exists today in the United States for Canadians and is being actively exploited by them.

The basic principles of a free investment market include such things as the right of establishment, national treatment, repatriation of profits and guarantees against discriminatory expropriation. Any exceptions to these principles should be very tightly limited to areas clearly essential to national security or cultural identity. Using hidden means of protecting domestic investments that are not essential to these areas should be prevented.

3. Contingency Protectionism

U.S. laws to provide protection against "unfair" trade and other disruptions caused by imports are well intended. However, we have found that the results actually achieved are often widely variant from the intent and are inconsistent with the national interest. We share the views of Professor John Jackson, the premier academic expert on such issues, that our anti-dumping law is trying to accomplish more than is reasonably possible to expect. We do not disagree with the conclusions in the attached article from the Wall Street Journal.

We are also concerned that increasingly, we are likely to be "hoist with our own petard" through foreign retaliation. We note, for example, the recent first ever non-U.S. application of the GATT Subsidies Code case in Canada's countervailing duty action against U.S. corn exports. We can expect more of the same kinds of activity against our exports, and not only by Canada.

Therefore, we strongly believe it is in the United States' interest, and not just Canada's, to include an effective trade dispute settlement process in an agreement.

4. Federal, Provincial & State Regulation - General

To achieve the full benefits of an Agreement, it appears that there will have to be considerable harmonization of laws and regulations that do not immediately appear to be trade barriers. For instance, deregulation of the Canadian transportation industry appears to be essential to achieving the more efficient, market-based allocation of resources that will bring the consumer benefits we anticipate.

We also believe that some harmonization of regulations to protect human health, safety and environment will be necessary if they are not to become serious non-tariff barriers to trade. This needs to be done in a way that does not undermine the protections they properly provide; rather, those differences that do not really provide benefits should be resolved.

One way to approach this would lie in the establishment of small project-specific commissions comprised of relevant experts to review problems as they are identified. Their reports should be made within specified time limits appropriate to the task. Implementation should be through "fast track" legislation of the type provided under Section 102 with provision for consideration by the Congressional Committees with relevant jurisdiction of the issues involved.

5. Rules of Origin and Standards of Preference

It is important that clear, economically realistic and administratively practicable criteria be used to determine which products are eligible for the duty exemptions provided by an FTA. They should strike a reasonable balance between being so loose as to permit circumvention and so stringent that in reality few complex manufactured products could qualify for the exemption.

We support adoption of the rules of origin proposed for international harmonization by the Joint Industry Group, the U.S. Council for International Business and the Industry Functional Advisory Committee on Customs Matters.

This proposal is an effective, workable combination of the traditional U.S. rules and those used by the European Community. We are aware that the Administration is working on a modification of this proposal. It is also proving responsive to private sector needs. However, we have to reserve first comment until we see more of the details of the proposal.

For the above reasons, we participate in the Steering Committee of the American Committee for Trade Expansion with Canada (ACTE/CAN), an organization of 450 companies with similar views.

U.S. Fair Trade Laws Are Anything But

By James Bovard

The U.S. definition of unfair trade is far broader and more arbitrary than that of many of America's trading partners. And the U.S. has radically different definitions of fair trade for Americans and foreigners. As Fred Smith of the Competitive Enterprise Institute says, "If the same antidumping laws applied to U.S. companies, every after-Christmas sale in the country would be banned."

U.S. trade laws require that the Commerce Department first determine whether a foreign product is being sold in the U.S. at less than fair value, or if the foreign company receives a government subsidy. After that, the International Trade Commission must determine whether imports cause domestic companies any "harm which is not inconsequential, immaterial, or unimportant."

But this measure is so broad as to be meaningless. ITC Chairwoman Susan Liebeler notes, "Any time a foreign producer exports products to the U.S., the increase in supply must result in a lower price of the product than would otherwise prevail." Even if imports only prevent U.S. prices from rising, they can be condemned for a price-suppressing effect. Our trade laws have never been accused of a pro-consumer bias.

What is "less than fair value"? The Commerce Department's creative interpretation probably has made many medieval scholastics smile in heaven.

For instance, last year, it cited China for a dumping margin of 66.65% on its porcelain-on-steel cookware (meaning that it was spending about $1.67 to get $1 in U.S. sales). Since China does not have a market price system, the department looked elsewhere to deduce the cost of Chinese cookware production, deciding that Thailand was "at a level of economic development comparable" to China. (This must be a surprise to Bangkok, since Thailand's per-capita income is roughly three times higher than China's.) But Thai cookware makers refused to open their files to the Commerce Department—justifiably, since at least one foreign company that voluntarily helped it in the past has subsequently been hit with "dumping" charges itself. (Similarly, often when huge dumping margins are announced it is because the foreign company refused to reveal all its in-house financial secrets to a Commerce Department inquisition.)

The Commerce Department then decided to judge China by comparing its cookware prices with Dutch, French and West German cookware prices. Not surprisingly, Chinese prices were much lower. (Chinese quality was also lower, but the department did not adjust for that.) The Commerce Department thus "proved" that China was unfairly dumping its pots and pans on America. Because of the verdict, the Customs Service now demands a 66.65% cash deposit on all incoming Chinese porcelain-on-steel cookware.

Trade laws are premised on the idea that every foreign company is trying to monopolize every sector of the American economy. The International Trade Commission, established in 1916, determines if harm was done by a particular country's imports to a particular U.S. industry.

Even though Israel's share of the U.S. oil-drilling-equipment market was less than 1%, for example, the International Trade Commission found that the American industry had somehow suffered. In a recent flower investigation, the ITC concluded that full-size Kenyan carnations were hurting American flower growers. Total Kenyan carnation exports to the U.S. are Lilliputian—less than 0.05% of total U.S. flower consumption—and the alleged "less than fair value" margin was only 1.58%. (Susan Liebeler and Vice Chairwoman Anne Brunsdale dissented but were outvoted. All five ITC commissioners are Reagan appointees.)

And there is a double standard. Former ITC Chairman William Leonard noted in a recent interview: "The ITC more or less takes on faith the price information and profitability supplied by domestic industries. But the price information is usually meaningless because it does not show the quantities being sold." Of course, U.S. producers have an incentive to overstate their prices to make it easier to prove that foreigners are unfairly "underselling" them. No American company has ever been penalized for lying about its prices in an ITC investigation.

Reading the congressional debate on the House trade bill, one would think that most trade cases were about international conspiracies to take over the U.S. market. But the vast majority of recent trade cases are simply American bureaucrats quibbling about such things as which expenses of a foreign company to allow, how to calculate foreign cost of production, adjustments for exchange-rate fluctuations, comparing prices for arbitrary "adjustments" for differences in quality, different volumes of sales, and wholesale vs. retail sales figures.

In 1984, Italy was convicted of a "less-than-fair-value" margin of 1.16% on its pads for the keys of woodwind instruments—even though Commerce admitted that it did not compare sales of identical products in Italy and the U.S. The whole idea of proclaiming 1% and 2% dumping margins in a world where exchange rates routinely fluctuate 2% a week is absurd.

Commerce Department analyses of foreigners' cost of production are often senseless. U.S. trade law requires that the department always assume in its "cost-of-production" formula that a foreign company makes a profit of 8% or more. Every trade case that proves that foreign companies are selling below cost of production also assumes that foreign companies make an 8% profit. Nobody at the department can explain how a company can sell below cost and still make this same profit.

The recent semiconductor case, where the Commerce Department claimed that the Japanese were selling at less than "fair value," was typical of the department's wizardry. It assumed a static "cost-of-production" model that was scorned by the Federal Trade Commission as unrepresentative of how businesses operate and calculate in the real world. There were disputes on how to allocate such items as plant overhead, research and development expenses, start-up costs and pension costs. And, of course, the Commerce Department assumed that the Japanese were making an 8% profit on their money-losing sales.

The whole point of U.S. trade laws is to prevent foreigners from dumping their products, bankrupting American companies, and then taking over the market and clobbering consumers. Our trade laws perpetually inflate domestic prices in order to protect consumers against the one-in-a-million possibility that a foreign company could corner the market—and raise prices. But the more internationalized markets have become, the less ability individual companies or countries have to dominate a market. If Germans try to bushwhack beer-drinkers, for example, the Dutch, Belgians and even the Mexicans will undercut their scheme.

According to Commerce Secretary Malcolm Baldrige, "Our fair trade laws are the bedrock on which free trade stands." But, rather than bedrock, our trade laws are a rigged trap, certain to snare foreigners while leaving domestic companies untouched. For the U.S. Commerce Department, the only fair price seems to be a price higher than that charged by American competitors.

Mr. Bovard writes frequently on trade issues.

Wall St. Journal
June 3, 1987

RANDY AUSTAD
STATE SENATOR

STATE OF SOUTH DAKOTA

SENATE CHAMBERS
State Capitol
Pierre, South Dakota 57501

RESIDENCE
8 Valley Oaks Drive
Sioux Falls, South Dakota 57103

605/339-2015 - Home
605/336-3135 - Business

August 10, 1987

To The Honorable Lloyd Bentsen
Chairman
Committee on Finance
United States Senate
205 Senate Dirksen Office Building
Washington, DC 20510

Dear Mr. Chairman:

There is strong business support in our state for national legislation to work out a comprehensive agreement with Canada to remove trade barriers.

Many of us believe that we're heading towards a global economy and it's inevitable that sooner or later we'll have to do this simply to better protect ourselves with other countries that have worked out similar agreements.

In addition, a number of industries within our state could benefit immediately if trade restrictions were eased. This includes parts of the agricultural industry, the wholesale distribution industry, and the direct marketing industry.

As a close neighbor to Canada, and a state highly dedicated to economic development, this is one area that your help could significantly create many more advantages for us than disadvantages.

Thank you for your consideration.

Best personal regards,

Randy Austad
State Senator

RA:kh

T. A. Campobasso
Corporate Vice President
International

Rockwell International Corporation
600 Grant Street
Pittsburgh, Pennsylvania 15219
USA

(412) 565-2032
Telex: 866213
ROCKWELL PGH A

August 13, 1987

Ms. Laura Wilcox
Hearing Administrator
Committee on Finance, Room SD-205
United States Senate
Washington, D. C. 20510

Dear Ms. Wilcox:

RE: U. S.-Canada Free Trade Negotiations

Canada's importance as the United States largest trading partner is well documented, but has not received the attention of other trade relationships. We believe that the current negotiations represent a rare opportunity to significantly enhance the international trade of the United States and that a balanced agreement is absolutely in the United States' national interest. We also believe that reductions in the impediments to trade will strengthen both countries and make both nations more competitive in other markets.

The importance to Rockwell of free trade with Canada is substantial. The Canadian marketplace represents in excess of one quarter of our sales outside of the United States. Annual U. S./Canada cross-border flows represent nearly 60 percent of the sales of our Canadian subsidiaries and Canada is the destination of 22 percent of Rockwell's exports from the United States. We believe that a free trade agreement could significantly enhance this two-way business flow which would be in our interests both in Canada and the United States.

STATEMENT OF FRANK DROZAK

PRESIDENT, SEAFARERS INTERNATIONAL UNION

ON THE

U.S.-CANADA FREE TRADE AGREEMENT

On behalf of the Seafarers International Union (SIU), representing unlicensed seamen employed on U.S.-flag vessels engaged in America's foreign and domestic trades, I would like to express our concerns regarding the proposed U.S./Canada Free Trade Area Agreement (FTA). Hopefully, some very important objectives will be achieved with the passage of an FTA. The SIU is not opposed to free and fair trade, however we strongly believe that the nation's maritime promotional programs should not be diminished under the guise of free trade.

The SIU believes that the nation's maritime promotional programs serve national security and domestic transportation interests and should not be a matter of international negotiation. America's maritime policies and promotional programs were implemented to serve national interests and do not impinge on the rights of other nations to act similarly in their own interest. Therefore, America's maritime policies and programs should not be considered as impediments to international commerce nor subject to treaty negotiations.

The United States' maritime promotional programs were enacted to foster and maintain a U.S.-flag domestic merchant marine that is sufficient to carry the nation's commerce and serve as a naval or military auxiliary in time of war or national emergency, to be owned and operated privately by citizens of the United States. Maintenance of a viable U.S. merchant marine is essential to the nation's defense industrial base and requires ship building facilities, ship component manufacturing, ship repair facilities and industrial skilled employees. In addition, the requirement for U.S. crews on these vessels insures the quantity and quality of manpower needed by the Department of Defense during periods of conflict.

Unfortunately, virtually every U.S. maritime policy and promotional program is included in the list of topics affecting the trade in goods and services between the United States and Canada being examined by the Office of the U.S. Trade Representative (USTR) with regard to the establishment of an FTA. Specifically, these programs are:

1) the Merchant Marine Act of 1920 (the Jones Act), which requires that all coastal, intercoastal and noncontiguous domestic trade be carried out by U.S. built vessels under U.S. registry employing U.S. citizens;

2) the Capital Construction Fund (CCF), authorized by section 607 of the Merchant Marine Act of 1936, which allows for deferral of Federal income tax on funds deposited if used to construct vessels in U.S. shipyards;

3) the Federal Ship Mortgage Insurance Program (Title XI of the Merchant Marine Act of 1936), which provides loan guarantees to U.S. shipowners for the construction of various vessels subject to Buy American requirements;

4) a 1965 amendment to the Military Appropriations Bill, which requires the hull and superstructure of Navy vessels to be constructed in U.S. shipyards;

5) the Operating Differential Subsidy (ODS), Title VI of the Merchant Marine Act of 1936, which requires ships to be U.S. built to qualify for operating subsidies;

6) the Cargo Preference Act of 1954, which requires that at least 50 percent of U.S. government generated cargo be transported on privately owned U.S.-flag commercial ships additionally, the 1985 Farm Bill, which requires that a minimum of 70 percent of certain agricultural exports be transported on U.S.-flag ships, increasing to 75 percent April 1, 1988;

7) Public Resolution 17 of the 73rd Congress, which requires 100 percent of cargo generated by loans made by the U.S. government must be shipped on U.S. flag vessels but includes a waiver of 50 percent of that cargo to vessels of the recipient's choice;

8) the Military Transportation Act of 1904, which requires 100 percent of all items procured or owned by the U.S. Armed Forces to be carried on U.S.-flag vessels but also includes a waiver for foreign built vessels;

9) buy American acts, which require Federal and local governments to purchase goods and services from American suppliers (ie. Military Sealift Command, U.S. Coast Guard services, etc.);

10) the Nicholson Act, which prohibits foreign fishing vessels from landing their catch in U.S. ports; and

11) the Magnuson Act, which authorizes the embargo of fish imports under certain circumstances.

Each of these policies or programs is essential to the continued maintenance of a U.S. domestic merchant marine and fishing fleet, therefore must not be subjected to international compromise.

The contributions of the Merchant Marine Act of 1920 (Jones Act) are numerous and of great importance to this nation. The Jones Act is paramount to the development and maintenance of the U.S.-flag domestic fleet, on which much of the nation's security is dependent. The domestic build requirement of the Act is essential to the continued existence of U.S. shipyards and the national defense industrial base. This requirement generates employment for thousands of American workers in the shipyards and allied steel industries. The Act's requirement for American crews provides employment for thousands of seafarers, contributing to the manpower pool available to the Defense Department in times of national emergency.

Several policies or programs are designed to promote domestic shipbuilding. The Capital Construction Fund (CCF) and the Federal Ship Mortgage Insurance Program (Title XI) were enacted to facilitate and enhance the building of ships in American yards. The CCF provides American ship owners an incentive to reinvest in the shipping industry. Title XI aids investors in securing funds to build ships in American yards.

These two programs, along with the Jones Act and the requirement for the hull and superstructure of Navy vessels to be constructed in U.S. shipyards, provides this nation with a ready and skilled shipbuilding base that must be available in times of emergency. Unfortunately, the nation's shipbuilding base is already inadequate for defense needs. Allowing Canadian yards to perform construction work intended for U.S. yards will only exacerbate existing shortfalls.

Several other programs provide cargo for U.S.-flag carriage. U.S.-flag allocation of government impelled cargo is the essence of the Military Transportation Act of 1904, which requires that all items procured or owned by the U.S. Armed Forces be carried on U.S.-flag vessels. Military cargoes are vitally important to the U.S. Merchant Marine. In 1985, the Military Sealift Command (MSC), the agency primarily responsible for procurement of commercial U.S.-flag shipping for the Department of Defense (DOD), provided the maritime industry with over $1 billion in transportation revenues. The MSC is the largest single employer of U.S. seafarers.

Public Resolution 17 of the 73rd Congress (PR-17) requires that 100 percent of cargo generated by loans made by the U.S. Export-Import Bank (Eximbank) be shipped on U.S.-flag vessels. PR-17 also includes a waiver provision for 50 percent of that cargo to be carried on vessels of the loan recipient's choice, which is usually the nation's own fleet. In 1984, U.S.-flag operators earned $16.7 million representing 70.7 percent of the total ocean freight revenues generated by Eximbank loans. Unfortunately, these figures are declining due to the reluctance of countries to make purchases abroad and the use of cash transfers that do not require the purchase of U.S. goods nor U.S.-flag service. Allowing Canadian-flag vessels equal access to these cargoes would accelerate that decline and displace U.S.-flag assets.

The Cargo Preference Act of 1954 was enacted in recognition of the national interest in promoting and preserving a strong U.S. merchant marine. The 1954 Act generally requires that when the federal government extends funds or credits in connection with exports, at least 50 percent of the tonnage of those exports must be shipped on U.S.-flag commercial vessels. As part of the 1985 Farm Bill, Congress raised the U.S.-flag preference share from 50 percent to 75 percent to be phased in over a three year period. Currently, a minimum of 70 percent is required. Seventy-five percent will be required to be transported on U.S.-flag ships April 1, 1988. By reserving a substantial portion of government generated cargoes for U.S.-flag ships, the nation is assured of an adequate merchant marine fleet. Diluting the U.S.-flag share through an FTA would be in sharp contrast to recent expression of Congressional intent.

The benefits of a strong merchant marine and shipbuilding base are invaluable to the nation's transportation and defense requirements. The continued existence of the nation's maritime promotional policies and programs are necessary to insure these benefits into the future. If these programs are negotiated away or broadened to include foreign-flag competition beyond the level to which it already exists, the maritime industry and the nation as a whole are likely to suffer irreparable harm.

The enactment of an FTA, which allows Canadian ship operators access to overseas or domestic cargoes generally reserved for U.S.-flag ships, would exacerbate the U.S. trade deficit with Canada, which amounted to over $23 billion in 1986. The ocean freight trade deficit alone, which includes ocean and Great Lakes trade, has amounted to over $344 million in the last five years, representing an average of over $69 million a year. This figure can be expected to substantially increase if Canadian vessel operators are granted additional access to the U.S. market.

Another foreseeable problem with opening America's domestic trade is that the benefits of access will not be equal. Canadian operators stand to gain enormous benefits from an FTA, especially increased market access. The U.S. market for domestic maritime services includes the Great Lakes, the East, West and Gulf Coasts, the noncontiguous trades, and 25,000 miles of navigable inland waterways. However, the Canadian market is limited to the Great Lakes/St. Lawrence Seaway and the Pacific Northwest, which already are both overtonnaged. Canada offers no equivalent programs or cargoes such as America's PL-480 Food for Peace shipments, Eximbank cargoes, or Department of Defense cargoes, etc. Therefore, the SIU believes that the proposed benefits of equal access to maritime services would disproportionately accrue to Canadian-flag operators.

Even though the benefits of maintaining a domestic fleet are quite apparent, nothing has been done to prevent the U.S. fleet's decline. In 1965, this nation had 948 vessels operating, employing more than 48,000 seafaring personnel. Currently, the U.S.-flag fleet has been reduced to 360 privately owned active vessels with an additional 96 vessels laid up and employs less than 14,000 persons. The shipbuilding industry is also suffering from severe decline. In 1965, the backlog for new construction of ships including Navy and commercial ships was 101 and 47, respectively. In 1986, the backlog fell to 79 ships for the Navy and only 4 Jones Act vessels for commercial interests. Clearly, these trends cannot be allowed to continue. Every effort must be taken to prevent further decline of these vital industries.

The need for a strong U.S. merchant marine is documented in the President's National Security Strategy, issued in January 1987. It states that:

> "the continuing decline of the U.S. merchant marine and U.S.-flag commercial shipping assets is a matter of concern. This problem is compounded by the decline of the U.S.-flag fleet which results in a reduction of the seagoing workforce to man all our U.S.-flag vessels as well as ships of the Ready Reserve Force, the National Defense Reserve Fleet and any effective U.S. controlled ships which might need recrewing. The lack of merchant mariners in the near term could impede our ability adequately to project and sustain forces by strategic sealift."

The President's report coincides with the Navy's manpower study released in September 1986. If an immediate demand were made for every merchant-type supply ship needed to fulfill a defense support role, the Navy estimates that there is a shortfall of over 3,000 officers and crewman. If downward trends continue in the U.S.-flag fleet, that deficiency could rise to over 8,000 by 1992. Allowing Canadian operators to compete in America's domestic and reserved trades will decrease the demand for American seafarers, exacerbating this trend and damaging U.S. defense capabilities.

Another negative result that must be considered is the potential for a dramatic increase in the number of Title XI defaults. Currently, total outstanding Title XI obligations amount to over $5 billion. On the Great Lakes alone, the sum is over $328 million. Defaults, since the inception of the program in 1955, have totaled nearly $2 billion. Over sixty percent of these defaults occurred just last year involving some 1,067 vessels. The U.S. Treasury, which has had to cover a significant amount of these loans, should not be subjected to additional defaults caused by increased Canadian competition. If Canadian operators are allowed to acquire underpriced, defaulted vessels from the Maritime Administration, which generally recovers only 30 to 40 percent of the value of the vessel, and use them in direct competition with U.S.-flag operators, the amount of defaults may snowball into a total collapse of the U.S.-flag merchant fleet.

Overall, the inclusion of maritime services in an FTA with Canada presents a myriad of problems and threatens the maintenance and perhaps existence of this nation's merchant marine. Currently, U.S. maritime promotional programs have been put on hold. Unfortunately, the present administration has placed Title XI ship financing guarantees, Construction Differential Subsidies and Operating Differential Subsidies in a dormant status. If Canada is awarded access to U.S. promotional programs through the negotiation of an FTA, it is improbable that these suspended promotional programs will ever be rejuvenated. It is quite unlikely that Congress or the Administration will ever broaden eligibility for existing maritime promotional programs to Canadian carriers.

In addition, the implementation of an FTA with Canada would set an extremely dangerous precedent. If Canadian-flag vessels are allowed access to our reserved trades, it is quite likely that America's other trading partners are going to seek similar privileges. With the existing depressed state of world shipping, the U.S. maritime industry is sure to suffer. Therefore, the SIU hopes that those responsible for negotiating a free trade agreement with Canada fully understand the detrimental effects of including maritime services.

The SIU does not believe that Canadian operators deserve additional access to U.S. maritime promotional programs for several reasons. Firstly, the Canadians enjoy substantial economic advantages over American operators, particularly associated with the currency exchange rate. The Canadian dollar has depreciated over 20 percent against the U.S. dollar in the last six years. The Canadian dollar equals approximately 75 cents in U.S. currency. This allows Canadian operators to underbid U.S.-flag operators and still garner profits. Secondly, the Canadians enjoy a substantial trade surplus with the United States in waterborne transportation, as stated above. In fact, Canadian-flag operators dominate the bilateral bulk trade on the Great Lakes by carrying over 90 percent of the cargo between the two countries. Thirdly, Canadian-flag operators enjoy several government generated advantages, not available to U.S. operators, which include less stringent operating requirements and a history of generous tax advantages.

Specifically, Canadian Coast Guard structural hull requirements are less stringent than U.S. Coast Guard requirements therefore, Canadian building costs are lower, resulting in another cost advantage for Canadian operators. In addition, the Canadian government began an early program of ship construction subsidization and continued with substantial tax depreciation schedules, both of which allowed the Canadian fleet to capture the bilateral waterborne trade. In contrast, the U.S. government has, in effect, eliminated the construction differential subsidy, repealed the investment tax credit, lengthened amortization schedules, and is attempting to ban future Title XI loan guarantees. These advantages, if coupled with access to American cargoes and maritime programs, would unfairly tip the playing field in favor of the Canadians. This will not result in fair trade.

We have been informed that the United States is considering a negotiating position which would "grandfather" all existing maritime programs and providing Canada with national treatment for all future maritime programs which differ in any way from those currently in effect. Such an approach would in effect handicap the U.S. merchant marine by limiting it to the existing marine market. As new technologies, and changing demands for marine services create the need to modernize maritime law, Canadian-flag vessels would have insurmountable advantages for the reasons we have outlined. What motivation would Congress have to update U.S. maritime policy if a foreign nation was the sole beneficiary?

The SIU believes that the elimination of U.S. maritime promotional programs, will not result in free and fair trade. We believe that the inclusion of U.S. maritime promotional programs in an FTA will result in unfair competition and further decline for the U.S.-flag merchant fleet. The U.S. merchant marine rightfully views the inclusion of maritime elements in an FTA as a danger to its existence. Therefore, the concerns raised by our industry should be brought to the attention of those charged with the treaty's ratification. The SIU respectfully urges the Committee to support the view that maritime services not be negotiated in the context of a U.S./Canada FTA. The importance of a strong U.S. merchant marine are much too valuable to negotiate away.

Sea-Land Corporation

Peter J. Finnerty
Vice President,
Public Affairs

August 17, 1987

The Honorable Lloyd Bentsen
Chairman
Committee on Finance
United States Senate
205 Dirksen Building
Washington, D.C. 20510

Dear Mr. Chairman:

As you know, the United States and Canada are negotiating a Free Trade Agreement (FTA) to remove tariff and non-tariff barriers to trade between our two nations. Ambassador Peter Murphy has indicated that Canada seeks authority from the United States to allow Canadian-registered ships, operating solely under Canadian law, to engage in the waterborne domestic commerce of the United States. He also indicated that the United States is prepared to grant that unprecedented right to the detriment of U.S. shipping.

As the largest U.S.-flag liner shipping company, Sea-Land strongly objects to the illogic and unfairness of this proposed trading regime. To create a change in U.S. law that would require American citizens to comply with U.S. vessel construction, registry, operation and tax laws, while competing Canadian vessels would be immune from these U.S. requirements, would lead to extinction of the U.S. domestic fleet.

Sea-Land provides domestic common carrier containership service between the mainland and Alaska, Hawaii, Guam, Puerto Rico and the Virgin Islands. Sea-Land also provides foreign commerce services with Asia, Northern Europe, Central America, the Caribbean, the Mediterranean, the Arabian Gulf and India.

Just this week, the SEA-LAND ANCHORAGE entered regular service between Tacoma, Washington and Alaska. This new containership is the first of three built in Wisconsin in a $200 million modernization program for our domestic Alaska service. The USTR inclusion of maritime programs

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in the Canadian negotiations would place this and other domestic U.S. shipping in jeopardy. Approaching the negotiations as the USTR has reported is unnecessary and harmful to U.S. defense and maritime interests.

During regular consultations earlier this year, it was reported to we private sector maritime interests that the U.S. representatives had asked Canada whether they would accept a "right of establishment" in U.S. domestic maritime commerce. Such an approach to the negotiations was eminently more fair than the present one-sided negotiating position. It was reported that the Canadians rejected that evenhanded U.S. proposal, pressing instead for their current goal of exemption from U.S. cabotage and tax law for Canadian-registered ships engaged in U.S. domestic commerce.

Allowing Canadians, or any other nation, to enter U.S. domestic commerce without complying with the U.S. requirements and obligations with which U.S. carriers must comply would only accomplish a great benefit to Canadians and serious harm to the already shrinking U.S. merchant marine.

We respectfully urge your Committee and the entire U.S. government to remove maritime matters from the FTA negotiations.

Sincerely,

Peter J. Finnerty

Peter J. Finnerty

COMMENTS OF
SEA-LAND CORPORATION
IN OPPOSITION TO
PROPOSED CONCESSIONS ON MARITIME MATTERS
IN FREE TRADE AREA NEGOTIATIONS
WITH CANADA

Summary Statement

COMMENTS OF SEA-LAND CORPORATION

1. The proposed concessions would be one more of a series of repudiations by this Administration of candidate Reagan's 1979 commitment to a "New Beginning for America's Maritime Industry."

2. Sea-Land has recently invested almost $350 million based upon the integrity of the Jones Act. This investment represents the acquisition of several vessels for the Hawaiian trade and the construction of three new containerships in American shipyards, the last shipbuilding contract in the United States, the new vessels are building on the Great Lakes and will serve in the contiguous U.S. Jones Act trade to the State of Alaska. The proposed concessions could totally destroy this investment.

3. Of particular concern is the contemplated access of Canadian carriers to our Jones Act trades. Because of high capital costs and operating expenses, U.S.-flag carriers are at a decided competitive disadvantage on international trading routes. The recent demise of United States Lines demonstrates how precarious their position is. The Jones Act, by reserving the coastwise trade to U.S.-flag, U.S.-built vessels, has given some assurance to date of at least a cadre of vessels and trained personnel to serve our national security sealift requirements.

4. If Canadian carriers using low-cost foreign-built vessels and possibly even third-nationality crews are permitted to enter the Jones Act trade, the long-continuing erosion of a U.S.-flag defense ready capability will be accelerated, with no obligation on the part of the Canadian carriers to contribute to that readiness.

5. The high capital costs and operating expenses of U.S.-flag carriers are not a disadvantage in the coastwise trade so long as the circumstances are uniformly applicable. However, if Canadian carriers that are subject to a more favorable cost and expense environment are permitted to enter the Jones Act trade, the competitive scales will tip heavily in their favor and further jeopardize viability of the U.S.-flag Merchant Marine.

6. Canadian access to other U.S. maritime programs will place U.S.-flag carriers at a distinct competitive disadvantage in international trade as well, because of the relative

cost differential. Moreover, Canadian vessels are not subject to the 50 percent U.S. customs duty on foreign repairs applicable to U.S.-flag vessels, thus compounding the U.S.-flag cost disadvantage.

7. Even if the proposed concessions are to apply only prospectively to new maritime program initiatives, that is still objectionable. There is very little that Canada can offer in the way of reciprocity to U.S.-flag vessels, either in meaningful market access or availability of promotional programs that would enhance their competitiveness.

These comments are submitted by Sea-Land Corporation ("Sea-Land"), a wholly-owned subsidiary of CSX Corporation, which operates one of the world's largest integrated multimodal transportation systems serving both domestic and international commerce. Sea-Land itself, through subsidiary companies, operates both port-to-port and through intermodal services in the foreign and domestic offshore trades, and is a worldwide market leader in containerized movement of cargoes.

It should be noted at once that Sea-Land, relying on the integrity of the Jones Act, has recently invested well over $350 million. Sea-Land is acquiring several existing vessels for the Hawaiian trade and almost paradoxically (in light of these trade negotiations) has entered into contract for the construction of three brand new containerships by a shipyard on the Great Lakes. One vessel has already been delivered; the other two are to be delivered shortly. These vessels will operate on Sea-Land's route between the State of Washington and the State of Alaska, improving Sea-Land's already existing service. If the concessions being considered with Canada regarding maritime affairs are granted, the value of this investment could be easily destroyed. Sea-Land, the originator of the containership, has long devoted itself to the domestic trade. It has long served Puerto Rico and Alaska and is now opening service to Hawaii. All of this, including a major investment is a matter of public knowledge. It had to be within the knowledge of the negotiators. Yet their proposal would destroy this investment. It is inconceivable that an Administration at least politically committed to a "new beginning for the maritime industry" could be so calloused.

If the North American Free Trade Agreement is presented to the Congress with the concessions on maritime programs that we understand have been under discussion, it will be one more of a series of repudiations by this Administration of the commitment made by candidate Reagan eight years ago to a "New Beginning for America's Maritime Industry." Since then, we have seen termination of the construction differential subsidy program, curtailment of the Title XI ship financing ggarantee program, apathy towards meaningful reform in the operating-differential subsidy program, and systematic evasion by agencies of the Defense Department of the military Cargo Preference Act of 1904. Now, if our understanding is correct, consideration is being given to granting Canadian-flag vessels national treatment with respect to the few remaining maritime promotional programs that stand between a continued precarious existence and the demise of our once-thriving U.S.-flag Merchant Marine.

These concessions are all the more alarming because the legislation to implement the Agreement will be presented to the Congress under the so-called "fast track" procedure of the Trade Act of 1974, as amended, which contains a non-waivable prohibition against amendment (see 19 U.S.C. § 2191(d)). Thus, the Congress will be faced with a cruel dilemma -- either to reject the agreement in toto, or to become party to what could well prove to be a cynical coup de grace for our beleaguered Merchant Marine and shipyard industry, with devastating consequences to our national security.

Of particular concern is the prospect that Canadian carriers may be extended the privilege of access to the U.S. coastwise trade. Internationally, the U.S. Merchant Marine is facing severe competitive pressures due in large measure to its higher capital costs associated with ship construction and financing, national tax policies, compliance with stringent safety standards in construction and operation of vessels and domestic sourcing requirements for maintenance and repairs, together with higher operating costs resulting from both statutorily-mandated and collectively-bargained manning expenses. This latter disadvantage is exacerbated in Sea-Land's case because, alone among the major U.S.-flag carriers engaged in international trade, it receives no operating differential subsidy. The recent demise of United States Lines should stand as a stark testimonial to the fragile competitive position of our merchant fleet. The principal source of salvation to date from an otherwise bleak prospect for U.S.-flag shipping has been the Jones Act (46 App. U.S.C. 883), which reserves to U.S.-flag, U.S.-built vessels the exclusive right to engage in our coastwise trade. What modicum of assurance we now have of at least a cadre of vessels and trained personnel to serve the national security sealift requirements of the United States has been afforded principally by that cabotage restriction. It is also the only remaining protection of the mobilization base for commercial shipyard construction that is required for national security purposes.

If Canadian carriers, particularly those using low-cost foreign-built vessels and possibly even third-nationality crews, are permitted to enter the Jones Act trade, the long-continuing erosion of a U.S.-flag sealift capability for national defense purposes will be accelerated. It should be abundantly clear that when it comes to the national defense transportation needs of the United States, even our closest allies cannot be reliably counted on for voluntary support, whether the need is for merchant tonnage or naval support.

The maritime services sector operates in a highly price-sensitive environment. Pricing flexibility to meet competition is essentially controlled by the cost of providing the service. Unlike many industries, the ocean shipping industry does not have and cannot afford the luxury of loss-leader pricing. So long as all carriers engaged in our coastwise trade are subject to the same cost elements--vessel construction, compliance with safety, health and welfare standards, taxation (including depreciation schedules) and citizenship requirements for manning, among others--managerial efficiency and innovation in cost containment is the key to effective competition. To allow access to that trade by carriers that enjoy a more favorable cost environment would be decidedly unfair and severely disruptive. The free-market philosophy contemplates that a vendor can find a market wherever the product is unique or can be price-competitive. Insofar as concerns coastwise trade in shipping services, the U.S. flag is unique because of our cabotage law. However, if that were no longer to be the case, where is the alternative market for a U.S.-flag operator that cannot be price-competitive because of cost disadvantages dictated by the very government that has chosen to relax the cabotage law?

Sea-Land's concern is not only with prospective inroads on the Jones Act trade. Access by Canadian vessels to other U.S.-flag promotional programs applicable to foreign commerce would be equally objectionable, for the same reason. U.S.-flag carriers are already at a significant cost-disadvantage with virtually all foreign-flag competitors, including Canadian operators. This cost disadvantage would become a government-mandated cost penalty if the United States were to accord national treatment to Canadian-flag vessels for purposes of the military Cargo Preference Act of 1904, the government-impelled Cargo Preference Act of 1956, the operating-differential subsidy program and Military Sea-Lift Command charters. Moreover, Canadian-flag vessels are not subject to the 50 percent ad valorem U.S. customs duty on the value of non-emergency repairs and equipments procured in foreign yards as are their U.S.-flag counterparts.

It has been reported that existing U.S. maritime programs would be "grandfathered" and Canadian carriers would be given access only to new initiatives. That is hardly reassuring, even if true. The guiding principle of statutory trade agreement negotiations to which the United States has been a party since the original Trade Agreements Act of 1934 has been reciprocity of concessions. Insofar as concerns maritime services, Canada has very little reciprocity to offer in return, either in terms of meaningful market access or the availability of promotional programs that would enhance the competitiveness of the U.S. flag, either bilaterally or in global trades.

In sum, the Administration must be dissuaded from pursuing this reckless course of further action to jeopardize both the competitive position of the U.S.-flag Merchant Marine and its adequacy--indeed, ultimately, perhaps even its availability--for national security sealift capability as our "fourth arm of defense."

SEARS

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312-875-6702

Michael Bozic
Chairman and Chief Executive Officer
Merchandise Group

August 17, 1987

The Honorable Lloyd M. Bentsen
Chairman
Committee on Finance
205 Senator Dirksen Office Bldg.
Washington, D.C. 20510

Dear Mr. Chairman:

This letter is on behalf of the Merchandise Group of Sears, Roebuck and Co. (U.S.A.) and is in response to your Committee's request for comments on the U.S.-Canada free trade area negotiations.

Sears strongly supports the successful conclusion of a comprehensive U.S.-Canada FTA agreement which will provide significant, fair and equitable benefits to each country's economy, the retail industry, and, particularly, to consumers.

As a general matter, free trade between the U.S. and Canada will foster economic growth and create jobs on both sides of the border. Conservative estimates suggest that a free trade agreement would raise U.S. gross national product by $12-17 billion annually, creating somewhere between 500,000 to 750,000 new American jobs. Canadian economists forecast a 9 percent growth in Canadian gross national product, with a significant increase in real wages. Not only would an agreement have a positive effect on both countries' manufacturing sectors, but it would also be highly beneficial to growth in their respective retailing industries.

Elimination of artificially high tariff barriers would be a particularly beneficial result of the agreement, especially to consumers. Sears and other retailers would be able to take advantage of expanded sourcing and distributing opportunities to more efficiently provide a broader assortment of consumer goods, the prices of which would be determined by free market competitive forces, rather than by artificially imposed tariffs. The direct result for consumers from the elimination of tariffs would undoubtedly be broader choices at lower prices.

Sears Merchandise Group, together with the other members of the American Coalition for Trade Expansion with Canada, encourages the Finance Committee to continue giving top priority to the advancement of the U.S.-Canada FTA negotiations. Our individual and collective hope is that a comprehensive, fair and equitable agreement can be reached by year's end.

Very truly yours,

Michael Bozic

SMADA INCORPORATED, MANAGEMENT CONSULTANT
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August 15,1987

Senator Lloyd M. Bentsen,Chairman
Finance Committee
United States Senate
703 Senate Hart Office Building
Washington,D.C. 20510

Greetings, Senator Lloyd and Staffers All:

As a member of the ACTE/CAN Coalition we have read their position paper on the subject of a trade agreement with Canada,concur and depart from the usual format and offer our brief dialogue as to our thoughts as follows.

1. We support a free and balanced trade agreement with Canada as set forth under GATT.
2. A bilateral agreement would assist the United States in furthur acquiring its credibility in the world market place. Canada is known to have greater impact and in fluence in certain third world countries than that of the United States.
3. A bilateral agreement would enable the two countries to forsee and very possibly prevent any trade conflicts. The trading rules would clearly draw out the lessor possibility for miss-understanding. It's the old management philosophy"answer the questions before they are asked".
4. Monetary levels,exchanges and values should be affixed on all goods and services to prevent either side from over or under compensation.
5. Research has shown us, a small business management consulting company that there is need by our neighbors to the North in the areas of cultural exchange,small business education thru seminars and workshops,video and cassette tapes. Small Business Institutes similiar to those offered here in the United States thru the community college system or our own Arizona Small Business Institute. Small business consulting such as we do would be most welcome.
6. A favorable trade agreement with Canada would,without reservation set an example for agreements with other countries that are not as solid as they might be or countries where no agreement exists. Giving is the true gift,it's in the giving that one gets in return.
7. Our brief dialogue with the small business people in Canada has proven to us that the time is now,more than ever before to reach an accord,we need each other.

As before,we would be pleased to make ourselves to provide more detail if asked.
Best wishes and Thanks

Larry

L.H.(Larry) Adams
cc/file,Laura Wilcox,Mary McAuliffe,etal

Prepared Testimony

Carl A. Beck
President
Charles Beck Machine Corporation

Representing

The Small Business Alliance for US/Canada Trade
In Partnership with the American Coalition
for
Trade Expansion with Canada

I want to thank the Committee, and especially Chairman LaFalce, for seeking out the voice of small business on the question of future trade between the United States and Canada. To the members of the Small Business Alliance for US/Canada Trade, a comprehensive trade treaty with Canada this year is essential. In our view, it could bring needed benefits not only to small business but also to the whole U.S. economy, including the thousands of communities in which small businesses supply so many jobs.

The Small Business Alliance, which works in partnership with the American Coalition for Trade Expansion with Canada, came together just recently. In only a few weeks, it has garnered close to 300 member companies from all over the nation.

In addition, our members include the major small business organizations -- National Small Business United, of which I am a board member, the National Federation of Independent Business, the National Association of Women Business Owners, and others -- organizations which represent more than half a million small firms.

Small business, as this Committee knows, is just waking up to the importance of international trade. As the National Commission on Jobs and Small Business reported last year, there are 30,000 small firms in this country that make exportable goods but do not in fact export. This fact has startled many people into reassessing the place of small business on the international scene.

According to a survey of 50,000 small businesses nationwide conducted last year by the Arthur Anderson accounting firm, the small business export potential clearly exists. The survey found that 76 percent of small businesses reported no income from exports, and only 3 percent of the companies surveyed derived more than 25 percent of their revenues from exports.

U.S. small business has virtually a blank page on which to write its international story, and Canada seems a terrific place to begin. Some firms already do business there, and Canada's proximity and common values make it a logical first step for doing international business.

What we need is for government to do its part and negotiate a solid new trade agreement, one that reduces or eliminates senseless roadblocks to trade. Small companies just want to do business. They generally have neither the time, the money nor the experience to deal with confusing and expensive trade regulations.

If I may, Mr. Chairman, I would like to take this opportunity to give you some specifics about small businesses and their encounters with Canadian trade. Their experiences demonstrate better than my words the importance of a trade agreement. Incidentally, if the Committee wishes to follow up with any of the people I mention, I will be happy to supply their phone numbers.

One of the frustrations many of us face -- as Chairman LaFalce mentioned last year -- is customs procedures. As Mr. LaFalce accurately put it, "Customs simplification could stimulate small U.S. firms to consider selling in the Canadian market." He was right in concluding that small firms "often shy away from exporting because of the complexities and high costs associated with shipping across the border."

Take, for example, Olson's, Inc., a retail farm equipment business in Bottineau, North Dakota. Olson's employs 11 people and brings in between two and three million dollars in sales each year -- 40 percent of which are from exports to Canada.

Bud Olson, who is president of Olson's and a member of the Small Business Alliance for US/Canada Trade, tells us that he "could write a book on all the small, Mickey-Mouse harassments that occur on both sides of the border, that impede and restrict the free flow of Duty Free merchandise.

"Give me the chance," says this small business owner, "and I would burn all the Tariff-Duty-Regulation manuals that have ever been printed, and forever prohibit the printing of any more."

One of Olson's problems is having to pay a fee every time his service people cross the border to service equipment in Canada. One of his employees has her own border problem, too -- every time one of her brothers travels to work their parents' Canadian land, he has to pay a fee. It doesn't make much sense to her or to Olson -- or to me.

My own company has had problems similar to Olson's: We have had service people cross the border into Canada to work on machinery and be assessed a duty for their own tools -- which, of course, they always take with them when they leave.

Pierre Pottier, who is president of Laramy Products Company of Lyndonville, Vermont, sells welding equipment to companies in Quebec. Pottier says he has found ways to work around what he admits are illogical customs procedures. But frankly, what to him are minor frustrations -- he is a French-speaking businessman with 20 years experience working with Canada -- are very likely intimidations for someone who wants to do business with Canada for the first time.

For example, a manufacturer can send a small shipment of materials, one that can come by parcel post, to the U.S. from Canada and pay only the normal duty. But a shipment of Pottier's from the U.S. to Canada of the same size is required to go through a Canadian customs broker, who charges $50 for his services. Now, $50 isn't much if the shipment is worth $5000. But if it's an emergency order of a $10 machine part, the cost is clearly out of line.

Ronald Coleman, Chief Financial Officer of Competition Cams, Inc., of Memphis, complains that his high performance camshafts are assessed an unreasonable 25 percent duty by Canadian customs.

K. Gordon Lawless, formerly head of the international department of Phifer Wire Products, Inc. of Tuscaloosa, Alabama, complains that Canada protects certain domestic industries, which in turn can raise prices and use the profits to underbid U.S. companies in world markets.

Pearl Lipner, who has a film editing business, Image Express, in Michigan, says she cannot perform her work in Canada because of labor restrictions, yet Canadian editors can both export their services duty-free to the U.S., and work here if they choose.

Frederick Kneeland, President of Maine Wild Blueberry Company in Machias, Maine, complains of subsidies that benefit his Canadian competitors -- both in the U.S. and in the European markets.

Then there's government procurement. US small business people would like to tap into the Canadian government market, but the obstacles presented by the government's "Buy Canadian" policies are formidable.

Jack Rennie, who is Chairman of our Small Business Alliance and also President of Pacer Systems, Inc. in Billerica, Massachusetts, lost an opportunity because of Ottawa's strong Buy-Canadian policies. His company wanted to sell its sophisticated electronic equipment to the Canadian government. But he was prevented from doing so by Canadian laws.

The reasons for gaining a comprehensive trade agreement are, of course, wider than just the bottom lines of those companies I've just mentioned. Our member firms come from 44 states stretching from Florida to Washington State and from Arizona to Maine. They all look to Canadian trade for growth.

As this Committee knows, small business growth means jobs. Firms with 500 or fewer employees accounted for nearly 50 percent of the private non-farm employment last year. Sixty percent of all new jobs in the United States are generated by firms with 20 or fewer employees. Between 1976 and 1984, small manufacturers created 1.2 million new jobs. Expanding small business exports clearly means expanding jobs -- and, in our view, the potential for job creation is of utmost importance.

But the importance of a Canadian/American agreement stretches even beyond the jobs generated by new Canadian trade. Assuming that such an agreement can be used as a pattern for GATT negotiations, small business participation in world trade should be enhanced. That can mean still more jobs. And with the size of the trade deficit of such concern to this country, the small business community clearly can contribute in a major way to reducing that deficit.

As Frank Swain, Chief Counsel for Advocacy of the Small Business Administration, said before this committee earlier this year, "Our national ability to increase our international economic competitiveness depends on continued growth of the small business sector."

That growth already comes in some degree from trade with Canada. Canada spends $1,697 per person annually on U.S.-made goods, more than ten times the level of the European Community. Canadians purchased $54 billion worth of U.S. products last year.

But there is abundant room for more growth. A recent study by the Institute for International Economics estimated that an agreement with Canada could expand the total U.S. export market by nearly seven percent, or more than $14 billion. Given the fact that small business represents 38 percent of this country's GNP, the small business share of any new Canadian trade could be major.

There is clearly a tremendous market across the border. And yet Canada still represents frustration and unfulfilled potential for many small U.S. firms. Some of our members have even given up on trade with Canada because of what they believe are unfair trade regulations.

Many of the concerns of small business may seem minor to larger companies. But magnified thousands of times across the country, those concerns represent major roadblocks to expanded US trade.

The problems are not unique to small business, of course, but they are especially aggravating for us because they constitute a larger share of the cost of trade. They are a big part of what discourages so many small firms from seeking out international trade opportunities.

I am therefore confident that an agreement that alleviates the seemingly minor frustrations of trade with Canada will gain broad support in the small business community.

Such a treaty would give American small business a tremendous lift, helping to invigorate the whole U.S. economy, expand our exports, cut our trade deficit, and increase jobs. I urge this Committee to do everything it can to make sure an agreement is signed and ratified.

I will be happy to take any questions.

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August 6, 1987

The Honorable Lloyd M. Bentson
Chairman, Committee on Finance
United States Senate
205 Senate Dirksen Office Building
Washington, D. C. 20510

Dear Mr. Chairman:

This letter is in response to the request of your Committee for comments on the U.S.-Canada free trade area negotiations.

While I favor the freest of trade relationships with Canada for most of the reasons set forth by others in observing the mutual short-term benefits, there also is an unmentioned long term benefit to this country which in my view would tend to be served by closer ties between the two countries.

My research in Canada several years ago indicated that within a one hundred mile radius of Calgary there are more proven reserves of Btu's of pumpable hydrocarbon than the sum of all of the estimated reserves in Saudi Arabia plus all that has been lifted in Saudi Arabia in history. While these Canadian reserves are somewhat heavy and only make economic sense at roughly $2.30 per gallon at the gasolene pump, it is quite likely that, within the next one to two hundred years, convenient access to these resources could be very important to the economic well being of our country.

It is difficult to imagine any disadvantage to the closest of economic and political ties with Canada. It is easy to imagine that growing apart might create long term inconvenience.

Sincerely,

Mark Rollinson

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FAX (414) 563-7702

August 6, 1987

Ms. Laura Wilcox, Hearing Administrator
Committee on Finance
United States Senate, Room SD-205
Washington, DC 20510

Dear Ms. Wilcox:

Spacesaver Corporation of Fort Atkinson, Wisconsin, has been actively involved in the Canadian market for the past 14 years. Until late in 1986, a manufacturing subsidiary plant was located in the Toronto locale.

Spacesaver manufactures a variety of high density storage devices, sold through independent distributors in each of the Canadian provinces.

Spacesaver has two principle competitors in the Canadian market and is of the opinion that the Spacesaver position is hampered by two notable conditions between Canada and the USA:

1. Montel and Drummex, both located in the Montreal area, are reported to receive a special provincial subsidy to maintain or increase labor in the Quebec province, and

2. Montel and Drummex ship into the USA a finished product carrying a 4% duty rate, whereas Spacesaver ships into Canada with a 9% duty rate on a similar product.

These conditions are determined to be detrimental to expanded business by Spacesaver, especially in the Canadian marketplace. Remedy of these matters would be most important to the Spacesaver company.

Sincerely,

SPACESAVER CORPORATION

Donald W. Branz
Treasurer

DWB:ss

Chairman of the Board Robert C. Jeffries, Evansville, IN
President Frank H. Shaughnessy, Auburn, WA
Vice President Edward A. Gallagher IV, Parkton, MD
Treasurer George M. Bragg, Long Beach, CA
Executive Vice President N. Eugene Brymer, APR CAE, Washington, DC

August 13, 1987

The Honorable Lloyd M. Bentsen
Chairman
Committee on Finance
United States Senate
205 Senate Dirksen Office Bldg.
Washington, D.C. 20510

Dear Mr. Chairman:

The Specialized Carriers & Rigging Association (SC&RA) is an international organization of 600 member companies located in 20 nations, however, the vast majority of the members are located in the United States. Our members transport heavy and overdimensional loads (trucking) and perform crane and rigging services (construction).

This letter is in response to the request of your committee for comments on the U.S.-Canada free trade area negotiations.

In order to solve the adverse impact of Canada's restrictive entry standards on U.S. motor carriers, SC&RA favors similar entry standards for motor carriers seeking to conduct single-line operations between points in Canada and the United States. Reciprocal opportunities are needed in order to compete on equal footing with Canadian motor carriers.

The competitive imbalance was triggered by the liberalized entry standards adopted in the Motor Carrier Act of 1980 which allowed Canadian carriers to obtain broad operating authority into the U.S. from the Interstate Commerce Commission. At the same time, Canada has maintained tough restrictive entry controls at both the provincial level and under its Foreign Investment Review Act.

Canada's restrictive policy has not only made it difficult for U.S. carriers to obtain authority into Canada, but it has also effectively discouraged many American trucking companies from seeking authority because of the high costs, the lengthy proceedings and the less-than-complete success that often results. The combined effect of more open entry in the U.S. and restrictive Canadian controls has put Canadian carriers in a superior position to remove American truckers on all traffic in the direction of or into Canada.

2200 Mill Road, Suite 616 Alexandria, Virginia 22314 (703) 838-1980
A Conference of American Trucking Associations, Inc.
Member Groups: Allied Industries, Crane & Rigging, Ladies, Millwright, Transportation

SC&RA
Specialized Carriers
& Rigging Association

The Honorable Lloyd M. Bentsen
Page Two
August 13, 1987

Without appropriate remedy, the U.S. trucking industry will unquestionably experience an unfavorable shift of revenue patterns that will seriously erode its international position, as well as its domestic one.

We are informed, however, the Canadian parliament is expected to enact its Motor Vehicle Transport Act within the next several weeks. If enacted, the legislation would basically open motor carrier operating regulations in Canada similar to U.S. entry standards. If the Motor Vehicle Transport Act is enacted, SC&RA believes the needs of the industry will be satisfied.

We appreciate this opportunity to offer SC&RA's views. The U.S.-Canada trade negotiations now underway are one of the most important opportunities available today to improve international trade. An agreement must be truly comprehensive and beneficial to the United States.

Sincerely,

N. Eugene Brymer

NEB/mjw

Speed Queen Company
Shepard Street
P O Box 990
Ripon WI 54971-0990

414 748 3121
TWX 910 269 1082
Telex 269 693
201316

Speed Queen
A **Raytheon** Company

Statement of Speed Queen Company

The Speed Queen Company, a wholly owned subsidiary of the Raytheon Company, is the worlds largest manufacturer and marketer of a broad line of commercial laundry equipment, and also manufactures and markets a complete line of laundry equipment for the home. Our brand names include, Speed Queen, Huebsch, Econ-O-Wash, Ultra Wash and Simplex.

Speed Queen is headquartered in Ripon, Wisconsin, and has factories in Kentucky and Arkansas as well as Wisconsin. Until November of 1979 our products were also manufactured in Canada under the Speed Queen brand label in the McGraw-Edison factory in Cambridge, Ontario. This relationship was ended when McGraw-Edison sold the U.S. Speed Queen factories to Raytheon in November 1979, and the Canadian plant to Canadian Admiral. At the present time Speed Queen manufactured products are sold in Canada under the Econ-O-Wash label for commercial products, and the Ultra Wash label for home laundry products. The Speed Queen brand name cannot be used as it is now owned in Canada by Inglis, a Canadian major appliance manufacturer which in turn is 70% owned by the Whirlpool Corporation from the U.S.

The Speed Queen Company and its parent company, Raytheon, strongly support a free trade agreement between the United States and Canada. The Canadian economic levels and consumer lifestyles are similar to those in the U.S., and as a result the Canadian market for laundry equipment is very similar to that of the U.S. Our products presently enjoy excellent popularity in the Canadian commercial and home markets, despite the high duties and taxes imposed by the Canadian government on these products.

The high level of duty and taxes has made our products the most expensive products available to the Canadian consumers and commercial customers, and as a result has severly restricted our growth in this market. It is impossible to compete with duties at 14 to 9% compared to a U.S. duty of 3.0% on products exported from Canada to the U.S.

Non-tariff barriers to the Canadian market include obtaining approval from regulatory agencies such as Canadian Standards Association and the Canadian Gas Association. Approval must be obtained at high cost and with lengthy delays in spite of our products having U.L. and American Gas Association approvals.

The three major appliance manufacturers in Canada who account for 80% of Canadian appliance sales are controlled by U.S. parent companies. There is no question that the high level of duties has been designed to restrict competing imports into the country, as imports represent less than 15% of total Canadian appliance sales.

We sincerely hope that the current negotiations on free trade between Canada and the U.S. are successful, and that both U.S. and Canadian duties on major appliances be phased out as soon as possible. Such an agreement would benefit consumers in both countries. The U.S. consumer would benefit by having productivity savings passed on in lower prices and the Canadian consumer would have access to a wider selection of appliances at greatly reduced prices.

STEVE COWPER
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

August 17, 1987

The Honorable Lloyd Bentsen
Chairman
Senate Finance Committee
205 Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. Chairman:

You have requested comments concerning the current U.S.-Canada free trade negotiations. One subject that is of concern to most states with businesses that either try to market products in Canada, or compete with Canadian products in the United States and abroad, is the level of subsidies afforded Canadian businesses by their government, on both a federal and provincial level. Some examples of this include transportation subsidies for Canadian products on federally owned railways, and grants for or direct participation in resource development projects by provincial governments.

The State of Alaska supports efforts by the U.S. government to effect a reduction in the high levels of direct assistance by Canadian governments that make it difficult for American businesses to compete with their Canadian counterparts. We are concerned, however, that the approach we understand that the U.S. Trade Representative (USTR) is taking goes well beyond what is necessary to remove or reduce the types of Canadian government subsidies that are particularly troublesome to American business. Furthermore, this approach appears to affect the ability of states with export economies, such as Alaska, to offer marketing or other development assistance to businesses that will compete with products from countries other than Canada, that do not have free trade agreements with the United States.

In recent briefings given to members of the National Governors' Association (NGA), the USTR indicated that negotiations to reduce the level of Canadian subsidies would have to involve reciprocal removal of subsidies by the United States. The USTR related that it was looking at a fairly broad definition of "subsidy" for these purposes that could potentially prohibit such state economic development efforts as loan guarantee and product marketing programs.

Alaska has suffered a serious economic downturn with the drop in oil prices. We are currently embarked on a major effort at economic development and diversification that involves use of some programs that would be prohibited under the USTR's approach. Our economic development efforts are directed to a large extent at export of Alaskan raw materials and processed products overseas, primarily to Pacific Rim countries. Alaskan firms compete with businesses from many countries, not just Canada, for these markets.

We do not object in principal to a reciprocal arrangement for the removal of subsidies. However, we feel that the USTR approach should be narrowly focused so that a bilateral agreement between the U.S. and Canada does not have the potential to affect states' efforts to assist exporting industries to compete with businesses from other countries.

Alaska's concerns have been communicated informally to the USTR during briefings with the NGA. NGA has received assurance from the USTR that the states will be given an opportunity to review and comment on proposed language before any agreement is reached with the Canadian government. However, USTR appears to continue to be intent upon using a broad definition of "subsidy." As discussed above, we believe this approach is unnecessarily expansive.

Thank you for your consideration of these comments.

Sincerely,

Steve Cowper
Governor

cc: Senator Ted Stevens
Senator Frank Murkowski
Congressman Don Young
Ambassador Peter Murphy

COMMENTS OF THE STEEL BAR MILLS ASSOCIATION ON THE U.S.-CANADA FREE TRADE AGREEMENT NEGOTIATIONS IN SUPPORT OF IMMEDIATE ELIMINATION OF DUTIES ON STEEL BARS

EXECUTIVE SUMMARY

The Steel Bar Mills Association ("SBMA"), which represents the majority of production of concrete reinforcing bars ("rebars") and other hot-rolled steel bars in the United States, urges that a Free Trade Agreement between Canada and the United States provide for immediate duty-free trade in rebar and hot-rolled bars.

U.S. and Canadian negotiators are currently considering a staged reduction of tariffs on certain import sensitive products, including steel. A gradual phase-out of tariffs is an exception to the general principle of broad trade liberalization in bilateral free trade agreements. Such an exception should be made only to avoid market disruption and with the full support of the affected industry.

In this case, the majority of domestic producers support an immediate elimination of tariffs on rebars and other hot-rolled bars. The U.S. duty is 4.9 percent on rebars and 4.7 percent on non-alloy hot-rolled bars, which is in marked contrast to the Canadian duty of 6.8 percent on the same products. Anticipating substantial benefits from immediate tariff elimination on rebar and other hot-rolled bars, SBMA opposes a slower staged reduction of tariffs on these products.

RE: REQUEST FOR PUBLIC COMMENT ON THE U.S.-
CANADA FREE TRADE NEGOTIATIONS (RELEASE NO. G-4)

The ongoing free trade negotiations between the U.S. and Canada have as a principal objective the elimination of tariffs on goods traded between the two countries. However, for certain products, including steel, a phase-in of the duty elimination for periods up to ten years is under consideration. The Steel Bar Mills Association ("SBMA"), which anticipates a commercial advantage from the immediate, mutual elimination of tariffs on structural steels, opposes any staged reduction for these products.

Specifically, SBMA urges USTR to negotiate an immediate elimination of tariffs on "deformed concrete reinforcing bars: other than alloy steel" in TSUS 606.79 and "bars other than alloy steel: not cold formed: not coated or plated with metal, [including] flats, pounds, [and] others," classified in TSUS 606.8310 through 606.8350. Given that the U.S. duty on non-alloy hot-rolled bars is 4.7 percent and the U.S. duty on rebars is 4.9 percent, as contrasted to the 6.8 percent Canadian tariff on both products,[1] a phase-out would delay the benefits to domestic producers of duty free entry of U.S. rebar and hot-rolled bars into the Canadian market.

Over ninety-five percent of U.S. rebar production and over two-thirds of other U.S. hot-rolled bar production comes from the market or "mini" mills,[2] most of which are members of SBMA. SBMA currently has twenty-five members,[3] all of which produce rebars and hot-rolled bars for sale within the United States, as well as Canada. These export opportunities would be greatly enhanced by the immediate elimination of the Canadian duty pursuant to the proposed Free Trade Agreement. Specifically, the cost savings of 1.9 percent on the value of rebar exports and an average cost savings of 2.1 percent on the value of other hot-rolled bar exports to Canada would give SBMA members the opportunity to become more competitive in the Canadian market, particularly with respect to imports from other countries.

The primary objective of a free trade agreement is to achieve comprehensive trade liberalization for the mutual economic benefit of the negotiating countries. Such liberalization would ideally include the immediate elimination of tariffs on goods traded between the countries. Exceptions should be made only if immediate duty elimination would cause disruption in a particular market and the affected industry requests relief. Such exceptions should be tailored as nearly as possible to those products with respect to which trade liberalization would have a direct and substantial negative effect on one country's producers. In this case, however, the U.S. producers representing the vast majority of domestic production of rebar and hot-rolled bar products support immediate duty free trade in these products.

---

[1] The majority of carbon hot-rolled bars are classified under Canadian number 37900-2, at a 6.8 percent tariff rate. A small percentage of bars of iron or steel, which are considered to be "further processed than hot-rolled, or otherwise processed" are classified as number 37910-2 and face a Canadian tariff of 8 percent. This, for example, would include bars that are notched.

[2] This estimate comes from D. Barnett and R. Crandall, Up from the Ashes 102 (Brookings Inst. 1986).

[3] See Appendix A for a list of member firms and their addresses.

It has been suggested that an exception from the commitment to complete tariff elimination be made in the case of steel products. However, SBMA believes that in the case of carbon hot-rolled bars and rebars, there is no justification for such an exception. Trade liberalization is not likely to have any adverse affects on the bar industry, which is increasingly dominated by efficient and competitive market mills. In fact, these producers will benefit from the elimination of the Canadian duty because market opportunities in Canada will be enhanced.

In summary, SBMA urges USTR to negotiate for immediate duty free trade in rebars and other hot-rolled bars in the U.S.-Canada Free Trade Agreement. A phase-in of duty free status would harm the domestic producers because of reduced export opportunities while providing negligible impact on Canadian sales of rebars and other hot-rolled bars to the United States. There is, therefore, no justification for a delay in duty free trade in these bars if an agreement with Canada is reached.

Sincerely,

Charles O. Verrill, Jr.
Katherine M. Gorove
Lynn S. West

of

WILEY, REIN & FIELDING
1776 K Street, N.W.
Suite 1000
Washington, D.C. 20006

Counsel for
Steel Bar Mills Association

APPENDIX A

Auburn Steel Company, Inc.
Quarry Road, Box 2008
Auburn, New York 13011

Bayou Steel
P.O. Box 5000
La Place, Louisiana 70069

Birmingham Steel
P.O. Box 1208
Birmingham, Alabama 35201

Border Steel
P.O. Box 12843
El Paso, Texas 79912

Calumet Steel Company
317 East 11th Street
Chicago Heights, Illinois 60411

Cascade Steel Rolling Mills, Inc.
3200 North Highway 99 West
P.O. Box 687
McMinneville, Oregon 97128

Chaparral Steel
300 Ward Road
Midlothian, Texas 76065

Chicago Heights Steel
211 E. Main Street
P.O. Box 129
Chicago Heights, Illinois 60411

Courtice Steel
173 Baseline Road East
Bowmanville, Ontario
Canada L1C 3L4

Florida Steel Corporation
P.O. Box 23328
Tampa, Florida 33630

Franklin Steel Company
P.O. Box 671
Franklin, Pennsylvania 16323

Jersey Shore Steel Company
P.O. Box 5055
Jersey Shore, Pennsylvania 17740

Marion Steel Company
912 Cheney Avenue
Marion, Ohio 43302

Milton Manufacturing Company
P.O. Box 337
Milton, Pennsylvania 17847

North Star Steel
P.O. Box 9300
Minneapolis, MN 55440

Owen Electric Steel Company of South Carolina
P.O. Box 2005
Cayce, South Carolina 29171

Roanoke Electric Steel Corporation
102 Westside Boulevard, N.W.
P.O. Box 13948
Roanoke, Virginia 24038-1831

Sheffield Steel
401 East Broadway, Suite A
Sand Spring, Oklahoma 74063

Sidbec-Dosco
2555 Chemin du Lac
Longueuil, Quebec, Canada J4N 1C1

Slater Steel Corporation
Box 943
319 Sherman Avenue, North
Hamilton, Ont., Canada L8N 3P9

Structural Metals, Inc.
Bill Dwyer Road
P.O. Box 911
Seguin, Texas 78155

TAMCO
12459 Arrow Highway
P.O. Box 325
Etiwanda, California 91739

Thomas Steel Corporation
P.O. Box 280
Lemont, Illinois 60439

W. Silver, Inc.
P.O. Box 307
El Paso, Texas 79943

Western Canada Steel Limited
450 S.E. Marine Drive
Vancouver, British Columbia
Canada V5X 2T2

Sun Chemical Corporation **Colors Group**

4805 Este Avenue
P.O. Box 32067
Cincinnati,
Ohio 45232
(513) 681-5950
Telex: 21-4502

August 6, 1987

Laura Wilcox
Hearing Adminstrator, Committee on Finance
Room SD-205 U. S. Senate
Washington, D.C. 20510

Dear Ms. Wilcox:

The subject of this letter is the U.S.-Canada Free Trade Negotiations. I am the Manager of Purchases for Sun Chemical Corporation, the largest organic pigment manufacturer in the U.S. with five manufacturing locations located in the states of Ohio, New York, New Jersey and Michigan. The organic pigment industry is a highly competitive, import sensitive industry with both domestic and international competition including Canada.

The raw material cost of an organic pigment generally equals 50% of its selling price. Raw materials for organic pigments are sourced both domestically and from offshore. Duty on raw materials for organic pigments in Canada and the U. S. are different. In the U. S. duties range from 18-20% advalorem and generally Canada has zero duty on these same raw materials for organic pigment manufacture. The selling price of raw materials for organic pigments worldwide tends to be at the same CIF price; therefore, due to the U. S. duty and no duty into Canada, the Canadian company can buy at a 18-20% lower price than its U. S. competitor.

With raw materials equalling 50% of the organic pigment selling price, this allows the Canadian producer a potential 10% increased profit margin versus the U. S. company. This 10% plus competitive edge is too great of an advantage edge to give in what is a highly competitive market. This competitive advantage granted the Canadians can only be resolved is one of two ways:

1) Require Canada to charge the same import duties on raw materials as the U. S. charges.

2) Require the value added in Canada to exceed 70% before duty-free treatment for organic pigment shipments to the U. S. can be given.

Thanking you in advance for your support and assistance concerning this issue.

Sincerely,

S. J. Schmidt
Manager of Purchases

SJS:ks

TEXAS INDUSTRIES, INC.
EXECUTIVE OFFICES
8100 CARPENTER FREEWAY DALLAS, TEXAS 75247

ROBERT D. ROGERS
PRESIDENT

August 10, 1987

The Honorable Lloyd M. Bentsen
Chairman
Committee on Finance
United States Senate
205 Senate Dirksen Office Building
Washington, D. C. 20510

Dear Lloyd:

We have talked several times about the importance of expanded and open trade between the United States and the rest of the world. In this arena, nothing is more important than successfully completing the U.S.-Canada free trade negotiations.

There is no question that free and fair trade will strengthen all parties over the long run, and in this case we are dealing with our largest trading partner and closest ally. Specifically for Texas Industries, our subsidiary, Chaparral Steel Company, sells structural steel produced in Texas into Canada. This product incurs a tariff many times that of the identical product which Canadian producers ship into the United States. The continuation of this blatant discrepancy needs to be eliminated!

Time is short and your help is the real key to consumating the negotiations. I know you can make it happen.

Please let me know if I can be helpful.

Best regards.

Sincerely,

Bob

RDR:lc

STATEMENT

OF

JAMES L. HENRY, PRESIDENT

OF THE

TRANSPORTATION INSTITUTE

REGARDING THE

U.S./CANADA FREE TRADE AREA NEGOTIATIONS

The Transportation Institute, representing over 140 U.S.-flag shipping companies engaged in the nation's domestic and foreign waterborne commerce, submits the following comments regarding the U.S./Canada free trade area (FTA) negotiations. As the Committee is aware, there is an October 5, 1987 deadline, by which the Administration must submit a proposal to the Congress for an up-or-down vote, without modification, under the "fast track" authority governing these negotiations. Given this limited time frame, the Institute appreciates the Committee's request for comments.

We recognize that the establishment of a logical and fair trading mechanism governing the international commerce between the United States and Canada, our largest trading partner and closest neighbor, is a worthwhile goal. The Institute believes, however, that the search for a more open trade environment should not lead to the systematic abrogation of sound, longstanding, domestic maritime policy. In examining the costs and benefits of a FTA with Canada, the maritime services sector clearly loses. Therefore, the Institute strongly opposes the inclusion of maritime services, policy or law within the context of free trade negotiations with Canada or any other nation.

The Institute has learned that the Merchant Marine Act of 1920, commonly known as the Jones Act, and other important maritime policies are being threatened by the ongoing U.S./Canada FTA negotiations. Any dismantling of this nation's time-honored maritime policies would be extremely detrimental to the entire U.S. maritime industry, including our shipyards and ship repair facilities, the inland tug and barge industry, the Great Lakes fleet, the offshore oil and gas service industry, and both our international and domestic maritime fleets.

America's historical maritime promotional programs and policies were enacted to maintain a strong U.S. merchant fleet, necessary for national security and domestic commerce purposes, not as barriers to trade, therefore they should not be subject to international trade negotiations. Alterations that may dilute U.S. maritime policy would exacerbate the President's concern expressed in the White House report, "National Security Strategy of the United States," released in January, 1987. The report stated:

> "the continuing decline of the U.S. merchant marine and U.S.-flag commercial shipping assets is a matter of concern. This problem is compounded by the decline of the U.S-flag fleet

> which results in a reduction of the seagoing workforce to man all our U.S.-flag vessels - as well as ships of the Ready Reserve Force, the National Defense Reserve Fleet and any effective U.S. controlled ships which might need recrewing. The lack of merchant mariners in the near term could impede our ability adequately to project and sustain forces by strategic sealift."

The national security sealift requirements of the United States necessitate a viable, national, commercial merchant marine to fulfill them. For these reasons, national security and domestic commerce, we oppose the inclusion of maritime policy in the FTA negotiations.

However, we understand, the Canadian negotiating team would like the United States to grant Canadian vessel operators access to our nation's domestic maritime trades and promotional programs, subject only to their own shipping policy restrictions. Under this scenario, the Canadian Shipping Act would allow Canadian vessel operators to utilize low-cost, foreign-built and foreign-crewed vessels in direct competition with U.S. operators utilizing higher-cost, U.S.-built assets in America's domestic trades. Canadian operators would also be able to re-flag foreign-built vessels for use in their domestic trades, upon payment of a 25 percent duty. American operators do not have this flexibility. Undoubtedly, U.S.-flag operators would suffer from lower-priced competition, if these Canadian-flag vessels were allowed to operate in our Jones Act trades.

In addition to operational flexibility, we believe Canadian operators enjoy numerous economic, promotional, regulatory, and fiscal advantages over U.S. operators and should not be granted unbridled access to our domestic trades. These advantages have allowed them to dominate the bilateral waterborne trade between the United States and Canada and will permit them to control any new trade offered to them. In 1986, Canadian-flag vessels carried over 95 percent of the waterborne trade between the United States and Canada.

Lower capital costs are but one of the advantages enjoyed by Canadian operators. Canadian-built vessels, which in the past have received substantial government subsidies, are allowed to operate in both their foreign and coastwise trades. In addition, Canadian operators may purchase vessels built in foreign subsidized shipyards and then operate these in their domestic trades upon payment of a duty, as mentioned above. In contrast, American operators must build in non-subsidized American shipyards in order to operate in the U.S. coastwise trades. Furthermore, Canadian-flag vessels are subject to less stringent and less costly Coast Guard vessel requirements than U.S.-flag vessels.

Canadian carriers also enjoy lower operating costs than their American counterparts. In part, this is due to differences in the currency exchange rate. While the U.S. dollar has depreciated elsewhere in the world, it has actually appreciated over 20 percent against the Canadian dollar in the last six years. Currently, the Canadian dollar equals approximately $0.75 in U.S. currency. This price advantage would allow Canadian operators to underbid U.S. operators, if given the opportunity, and still garner a profit.

Canadian ship owners have long enjoyed substantial tax breaks relative to U.S. ship owners. In 1949, the Canadian Vessel Construction Assistance Act allowed ship owners to depreciate the cost of construction at an accelerated rate of only three years.

In addition, the proceeds from the sale of a ship were not taxed if the money was used to build another ship in a Canadian yard. In 1957, amendments to the Act, known as the "Angel Plan," broadened the scope, allowing non-shipping corporations to take advantage of the depreciation provisions. The Act was repealed in 1967, but the accelerated depreciation provisions were retained in Canada's Income Tax Act. Many of the vessels built under these advantageous terms are still active in the Great Lakes bilateral trades where they could compete against non-subsidized U.S.-flag Jones Act carriers under the proposed FTA. Currently, new vessels constructed in a Canadian shipyard can be depreciated over four years.

These Canadian tax advantages are substantial when compared to U.S. tax policies. The U.S. Tax Reform Act of 1986 eliminated the use of investment tax credits for ship builders, and amortization schedules were lengthened from 5 to 10 years at a time when foreign competitors enjoy much shorter depreciation timetables. In addition, U.S.-flag operators' tax-deferred capital construction funds are now subject to the minimum corporate tax of 20 percent. These changes to the U.S. Tax Code further disadvantage U.S.-flag operators and lessen their ability to compete effectively with Canadian operators.

The offer of equal access to Canadian domestic trades could not, in any way, compensate for the loss U.S. operators would experience under the proposed FTA, especially considering the cost advantages enjoyed by Canadian operators. Such an arrangement could not possibly result in free and fair trade for U.S operators since the Canadian shipping market is less than comparable to the U.S. market, which encompasses the Great Lakes, the East, West and Gulf coasts, the non-contiguous trades, and 25,000 miles of navigable inland waterways. In contrast, the Canadian commercial market is limited to the Great Lakes, St. Lawrence Seaway and the Pacific Northwest, which are already overtonnaged. The Canadian market offers no equivalent programs such as America's PL-480 Food for Peace Program, Public Resolution 17, Strategic Petroleum Reserve shipments, Department of Defense cargoes, or Military Sealift Command charters. Therefore, the proposed benefits of equal access would disproportionately accrue to Canadian-flag operators.

It is our understanding that one proposal being offered by the U.S. negotiating team is the possible "grandfathering" of existing U.S. maritime programs, while providing Canadian maritime interests the benefits of equal participation in any future U.S. maritime policies. This would allow Canadian operators to compete with U.S. operators in any and all new Jones Act trades, cargo preference policies, offshore developments and other trades. Existing U.S. operations will suffer due to the lack of incentive to invest in future endeavors. American operators, subject to higher overhead costs, will not be able to fairly compete with subsidized Canadian operators, therefore all future U.S. maritime programs will primarily benefit Canadian maritime interests.

Again, considering the Canadian economic, regulatory, promotional and fiscal advantages listed above, it is certain that Canadian operators will dominate all future maritime programs. The result would be foreclosure on the future of the U.S. merchant marine and the crippling of Congress' ability to direct future maritime policy to meet the commercial and national defense demands of future generations. The Congress has spent decades formulating our national maritime policy and should not forfeit its role in developing future maritime initiatives by allowing Canadian operators to dominate all prospective programs.

In addition, the possible implementation of a FTA with Canada, which included maritime provisions, would set an extremely dangerous precedent. If Canada is allowed access to our domestic or future new markets, it is quite likely that America's other large trading partners would seek similar trading privileges, and may in fact already be empowered to do so by existing treaties.

Once Canadian advantages are made apparent and potential benefits for U.S. maritime interests are assessed, it is logical to conclude that the negotiation of maritime policies in a FTA with Canada will not result in free or fair trade in the maritime sector. Congress must demand that the Administration abandon the negotiation of this nation's maritime policies in order to preserve our national security and commercial interests.

Efforts are under way in the U.S. Senate and the U.S. House of Representatives to enact concurrent resolutions that express the sentiment of the Congress in opposing the inclusion of maritime services in the U.S./Canada FTA. The House Concurrent Resolution No. 157 has 213 cosponsors at this time. The Senate Concurrent Resolution No. 69 had 55 cosponsors at the time of introduction. We respectfully urge the Committee to reflect the bipartisan view that maritime issues be removed from the negotiating process.

The Institute appreciates the opportunity to comment and hopes that our views are taken into consideration when contemplating the approval of a free trade area with Canada.

COMMENTS ON

U.S.-CANADA FREE TRADE AREA

Presented By

THE UNITED FRESH FRUIT AND VEGETABLE ASSOCIATION

Alexandria, Virginia

SUMMARY

The following summarizes those issues identified by the United Fresh Fruit and Vegetable Association to be addressed during U.S./Canadian free trade negotiations:

1) Uniformity in grades, sizes labeling and food additive regulations;

2) Elimination of Canadian regulations restricting granting of easements for bulk shipments of produce;

3) Elimination of the Canadian fast track import surtax system and imposition of emergency fast track provisions similar to the U.S./Israel Free Trade Agreement and the Caribbean Basin Initiative;

4) Elimination of Canadian prohibition of consignment shipments;

5) Uniformity of pesticide registration and residue tolerance regulations;

6) Elimination of Canadian indirect subsidies under the Agricultural Stabilization Act;

7) Elimination of Canadian indirect subsidies under the Fruit and Vegetable Cold Storage Program;

8) Imporve effectiveness of Canadian Arbitration Board; and

9) Prohibition of duty free status of transshipments.

The United Fresh Fruit and Vegetable Association is the national trade association for the fresh fruit and vegetable industry. The 2,500 member companies, including growers/shippers, brokers, wholesalers, retailers and related industries, handle 80 percent of the fresh produce marketed in the United States. Over 50 member companies, primarily wholesale distributors, are located in Canada.

In February 1987, United's membership reaffirmed a resolution on international trade stating:

> "United encourages international trade as a means to improve the domestic and free world economies. We endorse efforts to promote free trade provided there is fairness and equity between trading nations.
>
> "Ensuring overseas markets for U.S. agricultural products is a primary goal of the Association. United is opposed to trade legislation or regulations that would place U.S. growers at a competitive economic disadvantage. Foreign and domestic protectionist trade measures are detrimental to the continued export of U.S. agricultural products. United urges the Administration, through the Office of the U.S. Trade Representative, to pursue policies that will eliminate foreign trade barriers to U.S. agricultural products."

In light of the negotiations for a U.S.-Canada free trade area, United generally supports the concept of free trade provided that trade is conducted on a fair basis. In calendar year 1986, the United States exported approximately 1.79 million metric tons of fresh fruits and vegetables worth $792.8 million to Canada. In that same time period, the United States imported 99,817 metric tons of fresh produce worth $54,72 million from Canada. Because of Canada's shorter growing season, U.S. growers have a positive trade balance in fresh produce with Canada.

In the July 10, 1986, announcement by the U.S. Trade Representative on hearings on possible free trade negotiations with Canada, a number of items were listed as non-tariff trade barriers both to U.S. and Canadian goods. These topics would be under consideration during the negotiations. The following preliminary comments focus on a number of these issues including the U.S. Food, Drug and Cosmetic Act, U.S. federal marketing orders, bulk shipments to Canada, Canadian fast track surtax system, consignment shipments, and pesticides. In addition United will comment on a U.S. fast track emergency relief system, Canadian Agricultural Stabilization Act, Canadian cold storage program, and duty free status of transshipments. United would like to retain the right to add to these comments as negotiations proceed.

U.S. FOOD, DRUG AND COSMETIC ACT

Provisions of the Food, Drug and Cosmetic Act affecting the fresh produce industry include labeling requirements for net weight or count; irradiated foods, and use of post harvest chemicals. The Food and Drug Administration is responsible for enforcing pesticide residue levels for domestic and imported foods under the FDCA. In addition, last year FDA ruled that sulfiting agents are no longer permitted for use as a preservative on agricultural commodities intended to be served or sold raw to consumers. These regulations are not a non-tariff trade barrier and should not be on the agenda for elimination in a U.S.-Canada free trade agreement. They provide for orderly marketing of produce and ensure the health and safety of the American consumer.

Although these regulations should remain in place, United urges that the U.S. and Canada coordinate food safety and labeling regulations to provide less restrictions on movement of goods. As an example, pesticide residue standards should be uniform for U.S. and Canadian markets to provide for orderly marketing of fresh fruits and vegetables and to ensure the health and safety of consumers.

U.S. FEDERAL MARKETING ORDERS

United strongly objects to any change in quality or grade standards under U.S. federal marketing orders in a U.S.-Canada free trade agreement. These regulations are essential for orderly distribution of produce and insure that the American consumer receives quality produce. United urges, however, that quality and grade standards be uniform for both the U.S. and Canadian markets to facilitate commerce.

CANADIAN EASEMENTS FOR BULK SHIPMENTS OF PRODUCE

Despite the large volume of fresh fruits and vegetables shipped to Canada, there are many non-tariff mechanisms inhibiting free and fair trade. If U.S. growers are to compete on a level playing field, barriers to free trade and unfair government subsidies must be eliminated.

The Canadian Agricultural Products Act prohibits imports of bulk items if supplies exist in the province of destination. Individual province marketing boards grant easements to allow bulk shipments into the province. If adequate local supplies exist in the province, easements are not granted. This regulation applies to interprovincial trade as well as international transactions, and affects primarily U.S. apple and potato shipments.

Potato growers in the southeast United States, particularly Virginia and North Carolina, are primarily affected since they normally ship just prior to Canada's harvest. Because the costs of repacking potatoes are prohibitive, U.S. potato growers who ship bulk are unable to be cost competitive. In addition, Canadian potato processors have severely restricted contracting with U.S. growers, because an easement may not be granted when the processors are ready to receive the U.S. potatoes. This provision, affecting potato and apple shipments, is protectionist and should be eliminated.

FAST TRACK EMERGENCY RELIEF/IMPORT SURTAX SYSTEM

United strongly urges that a fast track emergency relief program for perishable products be instituted for both U.S. and Canadian growers. This program could be similar to the fast track mechanisms in the U.S./Israel Free Trade Agreement and the Caribbean Basin Initiative. Emergency relief would be granted in a shortened time period and would be based on actual amounts and prices of produce shipped to the foreign market taking into consideration seasonal fluctuations.

The procedure currently in place in Canada is a fast track import surtax system for horticultural products. The surtax has been imposed only once since 1979, when the law was enacted, on yellow onions from October 1982 to March 1983. The very concept of the system is unacceptable, because it is based on prices at the U.S. wholesale market, not on actual U.S. shipments to the Canadian market. United strongly urges that in support of fair trade, similar fast track mechanisms be available in both countries based on actual shipments and in-country market prices.

CONSIGNMENT SHIPMENTS

Canada currently prohibits U.S. produce shipments sold on a consignment basis. There are no restrictions in the U.S. on how Canadian produce may be sold. There is interest on the part of U.S. shippers and some Canadian receivers to conduct business on a consignment basis. In open market economies, businessmen should be allowed to do so. United urges that the rules of how trade is conducted between Canada and the U.S. be harmonized by eliminating Canada's prohibition of consignment transactions.

PESTICIDE REGULATIONS

A major inhibitor to fair trade of fresh produce between Canada and the U.S. is the lack of coordination and continuity on pesticide registrations and residue tolerance levels. Many U.S. shipments are rejected at the Canadian border, because U.S. approved pesticides either have not been registered in Canada or the tolerance level is lower than that in the United States. A list of recently rejected shipments is attached. In addition, in some cases Canadian growers are at a distinct advantage by having a less expensive pesticide registered in Canada. Although the pesticide is not registered in the U.S., the FDA establishes action levels to allow imports treated with an unregistered pesticide.

United has been working actively to communicate and solve problems arising from different pesticide standards through the U.S./Canada Horticultural Task Force and annual meetings between Canadian and U.S. growers and health, agriculture and pesticide regulators. Because of the proximity of the two countries and the amount of horticultural trade, to facilitate fair trade, it is imperative that pesticide registrations and residue tolerance levels be uniform between Canada and the U.S.

AGRICULTURAL STABILIZATION ACT OF 1985

Canadian growers receive direct and indirect subsidies not available to U.S. growers of horticultural products. Under the Agricultural Stabilization Act of 1985, the Canadian government provides financial subsidies to a number of crops when prices are low or costs are high by historical standards. These subsidies encourage overproduction allowing marketing in the U.S. at lower prices. The attached table of payments for horticultural products under the ASA between 1974 and 1980 was prepared by the Foreign Agricultural Service, U.S. Department of Agriculture. In a U.S.-Canada free trade agreement, these direct government subsidies should be eliminated.

FRUIT AND VEGETABLE COLD STORAGE

An indirect subsidy to Canadian growers is the Fruit and Vegetable Cold Storage Program. The Canadian government provides financial support to assist in the construction of fruit and vegetable cold storage facilities to extend the marketing season. This government subsidy enables growers to export certain commodities year round. Cold storage facilities are needed to improve the quality of fruits and vegetables; however, United objects to assistance from the Canadian government for this purpose. The government subsidy reduces expenses to Canadian growers providing another unfair cost advantage over U.S. producers.

CANADIAN ARBITRATION BOARD

Under the U.S. Perishable Agricultural Commodities Act and the Canadian Agriculture Produce Standards Act, mechanisms are available to redress grievances on payment or condition problems of horticultural shipments. Canadian and U.S. growers have redress in both countries provided the businesses are licensed. A serious problem exists, however, for U.S. growers to achieve equitable redress from the Canadian Arbitration Board. The Board is unable to respond to grievances filed by U.S. growers in a timely and effective manner. United requests that the U.S. Trade Representative urge the Canadian government to strengthen the Canadian Licensing and Arbitration Board to meet the needs of the U.S. produce industry.

TRANSSHIPMENTS

An integral part of free trade negotiations with Canada should be a provision to prohibit duty free status of transshipments. Transshipments originate in one country, are shipped through a second country before arriving at the final destination in the third country. All products to receive duty free status must originate in either Canada or the U.S. to prevent other countries from unfairly receiving duty free status for exported goods.

The United Fresh Fruit and Vegetable Association supports and encourages the Canadian and U.S. governments to reach an understanding on a free trade agreement, provided that growers of horticultural products in both countries can market their product in an open and fair environment.

Thank you for your consideration of these comments. As negotiations proceed, United looks forward to working with the Committee on Finance on these issues as well as any other additional issues which may arise. If you have any questions or concerns, please feel free to contact Sharon E. Bomer, Director, Government Relations, United Fresh Fruit and Vegetable Association, 727 N. Washington Street, Alexandria, Virginia, (703) 836-3410.

Enclosures

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COMMON NAME	DATE PROCUR	SPECIMEN NUMBER	MANUFACTURER NAME	MANUFACTURER TOWN	DETERMINATION	MEAN
BEANS GREEN FRESH	851125	483048U	FLORIDA CITY PRODUCE	USA	EBDC/ZINEB	.84
BEANS GREEN FRESH	850424	473411U	INCONNU	FLORIDE	EBDC/ZINEB	0.77
CABERNET SAUVIGNO	850830	480244U	A.V. WINERY	BELLEVUE WA.USA	METH SULFOXIDE	0.48
CABERNET SAUVIGNO	850830	480244U	A.V. WINERY	BELLEVUE WA.USA	METHIOCARB	0.16
CABERNET SAUVIGNO	850830	480244U	A.V. WINERY	BELLEVUE WA.USA	METHIOCARB TOTAL	0.64
CELERY	850530	474683U	CLONT'S FARMS	OVIEDO FLA	METHAMIDOPHOS	0.16
CELERY	850211	431927U	GLOBE FOOD PRODUCTS	LOS ANGELES CA.	PARATHION-METHYL	0.22
GREEN PEPPER	850423	470131U	PERO BAG	DELRAY BEACH FL	ACEPHATE	2.0
GREEN PEPPER	850510	456149U	BARFIELD PRODUCE	IMMOKALEE FLA	ACEPHATE	0.35
GREEN PEPPERS	850503	475328U	BARFIELD PRODUCE	IMMOKALEE FLA	ACEPHATE	0.11
GREEN PEPPERS	850406	470211U	UNKNOWN	USA	ACEPHATE	0.21
GREEN PEPPERS	850503	459525U	JOHNSON BROS	USA	ACEPHATE	0.37
GREEN PEPPERS FRE	850121	466250U	THOMAS BROS FARMS	BOCA RATON	ACEPHATE	4.73
KIWI FRUIT FRESH	850121	456652U	VENIDA PACKING INC	EXETER CALIF	VINCLOZOLIN	0.11
LETTUCE	850509	473962U	UNKNOWN	USA	THIABENDAZOLE	0.18
ORANGES	850603	470208U	CAL CITRUS PACKING	LINDSAY CALIF	CHLORPYRIFOS	0.13
ORANGES FRESH	850108	443957U	SUNKIST GROWERS INC.	LOS ANGELES CA.	CHLORPYRIFOS	0.11
*PEARS	851031	475834U	STEMILT GROWERS INC.	WENATCHEE WASH.	AMITRAZE	0.19
*PEARS	851104	483012U	WASH. FRUIT & PROD	YAKIMA WASH.	AMITRAZE	0.47
*PEARS	851104	483013U	STEMILT GROWERS	WENATCHEE WASH.	AMITRAZE	0.88
*PEARS	851104	483014U	DUCKWALL POOLEY FRUIT	HOOD RIV ORE.	AMITRAZE	0.67
*PEARS	851104	483015U	WASH. FRUIT & PROD	YAKIMA WASH.	AMITRAZE	0.12
*PEARS	851105	476472U	CRYSTAL SPRING PACK.	MEDFORD OREGAN	AMITRAZE	0.84
*PEARS	851105	476473U	MODOC ORCHARD CO.	MEDFORD OREGAN	AMITRAZE	0.80
*PEARS	851125	483047U	MEYER FRUIT CO	MEDFORD, OREGAN	AMITRAZE	0.55
PEARS FRESH	851028	466943U	WASHINGTON FRUIT & P	YAKIMA USA	AMITRAZ,TOTAL	0.21
PEARS FRESH	851105	476471U	ASSOCIATED FRUIT CO	MEDFORD	AMITRAZ,TOTAL	0.72
PEARS FRESH	841126	457893U	FORNEY FRUIT & PRODU	YAKIMA	AMITRAZ,TOTAL	0.12
PEARS FRESH	841126	457894U	COLLINS FRUIT	MONITOR	AMITRAZ,TOTAL	0.24
PEARS FRESH	841203	466206U	FORNEY FRUIT & PRODU	YAKIMA	AMITRAZ,TOTAL	0.14
PEARS FRESH	841107	454138U	TABLE ROCK	VALLEY OREGON	AMITRAZ,TOTAL	0.17
PEPPERS GREEN FRE	850517	460018U	M W M PRODUCE INC	IMMOKALEE	ACEPHATE	0.14
PEPPERS GREEN FRE	850809	466858U	MAURICE J KERNAN JR	USA	ACEPHATE	0.15
PEPPERS GREEN FRE	850809	466862U	THOMAS AND FRANK SOR	USA	ACEPHATE	1.79
PEPPERS GREEN FRESH	850717	452377U	LOUIS J CABAZZA	VINELAND	ACEPHATE	0.81
PEPPERS GREEN FRESH	850717	452379U	M D PERRY SONS	PEDRICKTOWN	ACEPHATE	1.50
PEPPERS GREEN FRESH	850716	473437U	MARINO BROS INC	SWEDESBORO	ACEPHATE	0.50
SPINACH FRESH	851029	465180U	CHARLES BOTO	USA	EBDC/ZINEB	0.52
STRAWBERRIES	850424	470124U	CAL FRUIT	OXNARD CAL	VINCLOZOLIN	0.11
STRAWBERRIES	850503	475329U	CAL FRUIT	LOS ANGELES CAL	VINCLOZOLIN	0.22
STRAWBERRIES	850509	473958U	UNKNOWN	USA	VINCLOZOLIN	0.41
STRAWBERRIES	850509	473960U	UNKNOWN	USA	VINCLOZOLIN	0.31
STRAWBERRIES	850510	456150U	CAL FRUIT	LOS ANGELES CAL	VINCLOZOLIN	0.26
STRAWBERRIES	850529	470205U	SUNSET GROWERS	SANTA MARIA CAL	MEVINPHOS TOTAL	0.34
STRAWBERRIES	850529	470205U	SUNSET GROWERS	SANTA MARIA CAL	MEVINPHOS-ALPHA	0.28
STRAWBERRIES	850529	470205U	SUNSET GROWERS	SANTA MARIA CAL	VINCLOZOLIN	0.12
STRAWBERRIES	850610	474646U	M Y MINAMI	SANTA MARIA CAL	MEVINPHOS TOTAL	0.42
STRAWBERRIES	850610	474446U	M Y MINAMI	SANTA MARIA CAL	MEVINPHOS-ALPHA	0.33
STRAWBERRIES FRESH	850402	473466U	JAMESON FARMS	USA	CAPTAFOL	0.365
STRAWBERRIES FRESH	850402	475558U	JW HUNT PROD CU	USA	CAPTAFOL	1.00
STRAWBERRIES FRESH	850416	473402U	JW HUNT PROD CO	PLANT CITY USA	MEVINPHOS TOTAL	0.50
STRAWBERRIES FRESH	850416	473404U	MENDELSON ZELLER	CALIF	CAPTAFOL	2.56
STRAWBERRIES FRES	850503	459518U	CALBERI INC	USA	VINCLOZOLIN	0.35
STRAWBERRIES FRES	850510	460001U	MAIUNIPE BERRY GROVE	WATSONVILLE	VINCLOZOLIN	0.97
STRAWBERRIES FRES	850510	460002U	WATSONVILLE BERRY CO	USA	VINCLOZOLIN	0.29
STRAWBERRIES FRES	850517	460017U	CALBERI INC	SANTA ANA	DICHLORVOS	0.44
STRAWBERRIES FRES	850517	460017U	CALBERI INC	SANTA ANA	VINCLOZOLIN	0.30
STRAWBERRIES FRES	850523	460036U	WATSONVILLE BERRY CO	WATSONVILLE	VINCLOZOLIN	0.37
STRAWBERRIES FRES	850210	444779U	MENDELSON ZELLER CO.	SAN FRANCISCO	CAPTAN	0.3
STRAWBERRIES FRES	850220	444784U	CAL SUN PRODUCE	OXNARD CALIF.	VINCLOZOLIN	.61
STRAWBERRIES FRES	850220	444784U	CAL SUN PRODUCE	OXNARD CALIF.	VINCLOZOLIN-TOT	.65
STRAWBERRIES FRES	850226	444787U	MENDELS ZELLERS CO.	DCALIFORNIAED IN	CAPTANUS REPORTS	9
STRAWBERRIES FRES	850304	455441U	JW HUNT PROD CO	USA	TRIFORINE	0.11
WATERMELON	850704	468195U	UNKNOWN	U.S.A	ALDICARB SULFOXIDE	0.23
WATERMELON	850704	468195U	UNKNOWN	U.S.A	ALDICARB TOTAL	0.23
WATERMELON	850704	468195U	UNKNOWN	U.S.A	ALDICARB-T-SULFONE	0.19
WATERMELON	850704	469196U	UNKNOWN	U.S.A.	ALDICARB SULFOXIDE	1.0
WATERMELON	850704	468196U	UNKNOWN	U.S.A.	ALDICARB TOTAL	1.0
WATERMELON	850704	468196U	UNKNOWN	U.S.A.	ALDICARB-T-SULFONE	0.7
WHITE WINE	850830	468726U	KNUDSEN ERATH WINERY	DUNDEE ORE. USA	METH SULFOXIDE	0.16
WHITE WINE	850830	468726U	KNUDSEN ERATH WINERY	DUNDEE ORE. USA	METHIOCARB	0.14
WHITE WINE	850830	468726U	KNUDSEN ERATH WINERY	DUNDEE ORE. USA	METHIOCARB TOTAL	0.30

COMMON NAME	DATE PROCUR	SPEC NUMB	MANUF NAME	MANUF TOWN	DETERM	MEAN	MET UNI
BEANS GREEN FRESH	840224	459815U	JONES PRODUCE	HOMESTEAD FLOR	EBDC/ZINEB	1.71	PPM
BEANS GREEN FRESH	840127	[illegible]	FLORIDA TOMATO PACKE	HOMESTEAD, FLOR	EBDC/ZINEB	7.09	PPM
BEANS GREEN FRESH	840303	[illegible]	FLORIDA TOMATO PACKE	FLORIDA	EBDC/ZINEB	1.83	PPM
BEANS HARICOT FRESH	851216	495875U		FLORIDA	EBDC/ZINEB	.59	PPM
CELERY FRESH	851028	466944U	GREEN VALLEY PRODUCE	SALINAS CALIF	ACEPHATE	0.2	PPM
KOHL-RABI FRESH	851213	495873U		TEXAS	PERMETHRIN TOTAL	0.11	PPM
LETTUCE LEAF FRES	851104	483009U	BOUTONNET FARMS	CASTROVILLE CAL	PERMETHRIN TOTAL	1.67	PPM
PEACHES FRESH	850708	475003U	JEANNILL'A WATSON SON	SOUTH CAROLINA	TRIFORINE	0.62	PPM
PEACHES FRESH	850722	466829U	L F HOLMES & SONS	JOHNSTON, S.CARO	TRIFORINE	0.25	PPM
PEARS FRESH	851211	495871U	REMLEY ORCHARDS	HAYDEN, WASH	AMITRAZ,TOTAL	1.0	PPM
PEARS FRESH	840217	459600U	HAINES INC	MEDFORD OREGON	AMITRAZ,TOTAL	0.30	PPM
PEARS FRESH	840217	459609U	DOVEX PACKING CO	MEDFORD, OREGON	AMITRAZ,TOTAL	0.28	PPM
PEARS FRESH	840318	459829U	DOVEX PACKING CO	WENATCHEE, WASH	AMITRAZ,TOTAL	0.29	PPM
PEARS FRESH (D'AN	840311	459826U	CHIEF WENATCHEE	WENATCHEE, WASH	AMITRAZ,TOTAL	0.38	PPM
PEARS FRESH (FALL	840311	459825U	[illegible] ORCHARDS	MEDFORD, OREGON	AMITRAZ,TOTAL	0.12	PPM
PEARS FRESH BOSC	840217	459807U	ROGUE RIVER ORCHARDS	MEDFORD, OREGON	AMITRAZ,TOTAL	0.23	PPM
PEARS MEDFORD	851202	486777U	ASSOCIATED FRUIT CO.	MEDFORD, ORE..	AMITRAZ,TOTAL	0.15	PPM
PEACHES FRESH	850529	473419U	BARR PACKAGING CO	SANGER, CALIF	TRIFORINE	0.15	PPM
STRAWBERRIES	840420	483482U	NATURIPE BERRY GROWE	WATSONVILLE CAL	VINCLOZOLIN	0.93	PPM
STRAWBERRIES	840420	483483U	THE IRVINE CO	IRVINE CALIF	VINCLOZOLIN	0.72	PPM
STRAWBERRIES	840501	483492U	OXNARD BERRY FARMS	OXNARD CALIF	VINCLOZOLIN	0.32	PPM
STRAWBERRIES	840501	483494U	NATURIPE BERRY GROWE	WATSONVILLE CAL	VINCLOZOLIN	0.10	PPM
STRAWBERRIES FRESH	840420	483624U	SHAMROCK FARMS	SANTA MARIA CAL	VINCLOZOLIN	.19	PPM
STRAWBERRIES FRESH	840505	487602U	TENNECO WEST	BAKERSFIELD CAL	VINCLOZOLIN	1.16	PPM
STRAWBERRIES FRESH	840505	487805U	OXNARD BERRY FARMS	OXNARD CALIF	VINCLOZOLIN	1.14	PPM
STRAWBERRIES FRESH	840507	487806U	OXNARD BERRY FARMS	OXNARD CALIF	VINCLOZOLIN	.52	PPM
STRAWBERRIES FRESH	840501	483496U	COASTAL BERRY CORP	WATSONVILLE CAL	VINCLOZOLIN	2.18	PPM
STRAWBERRIES FRES	840501	483497U	NEW WEST FRUIT CORP	WATSONVILLE CAL	VINCLOZOLIN	0.18	PPM

• NOTE: Information received from Health and Welfare of Canada

SAMPLES OF PRODUCTS FROM THE U.S.A. FOUND TO CONTAIN EXCESSIVE LEVELS

OF PESTICIDE RESIDUES

COMMON NAME	DATE PROCURED	MANUFACTURERS NAME	MANUFACTURERS TOWN	DETERMINATION	MEAN VALUE (ppm)
BANANAS	84 11 30	PANDOL BROS. INC.	DELAND, CALIF.	EBDC/ZINEB	0.12
CELERY	85 01 11	SOUTH BAY GROWERS	SOUTH BAY, FLA. ✓	METHAMIDOPHOS	0.11
				PERMETHRIN TOTAL	0.63
	85 01 25	A. DUDA & SONS	OVIEDA, FLA. ✓	METHAMIDOPHOS	0.17
	85 02 07	L. CACHO	MESA, CAL.	ACEPHATE	0.21
	85 02 11	UNKNOWN	UNKNOWN	ACEPHATE	0.74
FRESH ORANGES	85 01 11	EXETER TULARE CO.	CALIFORNIA	CHLORPYRIFOS	0.21
		GOLDEN STATE CITRUS	WOODLAKE, CALIF.	CHLORPYRIFOS	0.29
FRESH POTATOES	84 11 20	J.A. SHERWOOD POTATO	MOSES LAKE, WA.	ALDICARB	0.67
				CHLORPROPHAM	0.70
	85 02 18	MENDELSON ZELLER CO.	SAN FRANCISCO	CAPTAN	8.3
	85 02 20	CAL SUN PRODUCE	OXNARD, CALIF.	CAPTAN	1
				VINCLOZOLIN-TOTAL	.65
	85 02 26	MENDELS ZELLER CO.	CALIFORNIA	CAPTAN	9
GREEN PEPPERS	85 01 17	DUBOIS FARMS	BOYNTON, FLA. ✓	ACEPHATE	0.70
	85 01 17	DUBOIS FARMS	BOYNTON, FLA. ✓	ACEPHATE	0.80
	85 01 17	DUBOIS FARMS	BOYNTON, FLA. ✓	ACEPHATE	1.02
	85 01 25	JOHNSON BROS	IMMOKALEE, FLA. ✓	ACEPHATE	0.58
HEAD LETTUCE	84 11 21	BUD ANTLE INC.	SALINAS, CALIF.	ACEPHATE	0.12
HONEY DEW	84 05 15	ISPRAC	SANTA ISABEL PR	EBDC/ZINEB	0.11
PEACHES FRESH	84 06 18	SANDY RIDGE FARMS	TRENTON	TRIFORINE	0.11
	84 05 07	SUN WORLD INT'L. INC.	BAKERSFIELD	TRIFORINE	0.21
PEACHES	84 07 16	GRANNY PEACH ASS.	REIDVILLE, USA	TRIFORINE	0.26
		LEWIS F HOLMES SONS	USA	TRIFORINE	0.12
PEARS FRESH	85 03 13	BLUE STAR GROWERS	USA	AMITRAZ, TOTAL	0.20
PEARS FRESH *	85 01 21	PETER FRUIT CO	MEDFORD, OREGON	AMITRAZ, TOTAL	0.30
*		SOUTHERN OREGON SALE	MEDFORD, OREGON	AMITRAZ, TOTAL	0.30
PEARS FRESH *	85 02 04	INDEPENDENT WAREHOUSE	WASHINGTON	AMITRAZ, TOTAL	0.17
PEARS FRESH FOREL *	85 01 21	DIAMOND FRUIT GROWER	HOOD RIVER	AMITRAZ, TOTAL	0.25
PEARS FRESH FOREL *	84 11 26	WASHINGTON FRUIT & P	WASHINGTON	AMITRAZ, TOTAL	0.14

COMMON NAME	DATE PROCURED	MANUFACTURERS NAME	MANUFACTURERS TOWN	DETERMINATION	MEAN VALUE
PEARS FRESH/ANJOU *	84 10 23	UNKNOWN	WASHINGTON	AMITRAZ, TOTAL	0.11
PEARS FRESH *	84 10 23	UNKNOWN	U.S.A.	AMITRAZ, TOTAL	0.14
PEPPER, GREEN	85 01 11	SIX L PACKING CO	HOLLYWOOD, FLA.	ACEPHATE	0.11
PEARS *	84 11 07	TABLE ROCK	VALLEY, OREGON	AMITRAZ, TOTAL	0.17
ROMAINE LETTUCE	85 01 21	NISHIKAWA RANCH	THERMAL, CALIF.	CHLOROTHALONIL	0.54
STRAWBERRIES	85 02 26	MENDELSON ZELLER	CALIF.	TRIFORINE	0.11
	85 02 28	BOB JONES RANCH	OXNARD. CALIF	CAPTAN	6.22
		WALDEN SPARKMAN	DOVER, FLA.	VINCLOZOLIN	0.74
	85 03 06	WALDEN SPARKMAN	DOVER, FLA.	CAPTAN	6.46
				VINCLOZOLIN	0.14
STRAWBERRIES FRESH *	85 01 21	F. G. McDONALD PRODUCE	PLANT CITY	CAPTAFOL	9.39
				CAPTAN	19.97
				MEVINPHOS	1.59
*		McDONALD PRODUCE CO	PLANT CITY	CAPTAFOL	4.47
				CAPTAN	8.75
				MEVINPHOS	0.63
*	85 01 24	WILSON & SON SALES	PLANT CITY	CAPTAN	24.20
*	85 01 25	J. W. HUNT PRODUCE CO	PLANT CITY	CAPTAN	11.03
*	85 02 22	CAL SUN PRODUCE	OXNARD	VINCLOZOLIN	0.4
*	85 02 22	NATURIPE BERRY GROWERS	ANAHEIM, CALIF	VINCLOZOLIN	0.47
	85 03 04	J. W. HUNT PROD CO	USA	TRIFORINE	0.11

Note: Specimens marked * were previously reported to the American Embassy in correspondence dated March 29 and April 19, 1985.

HEALTH PROTECTION BRANCH
APRIL 1, 1985

ENCLOSURE 2

HORTICULTURAL PRODUCTS

Agricultural Stabilization for Fruits and Vegetables

Under the Agricultural Stabilization Act various fruits and vegetables have been designated for support. While the Programs are specified for a particular crop year or harvest period, payments are often not made until after the end of the corresponding fiscal year when market prices, returns and costs are available. The following table summarizes payments for horticultural products made under the ASA:

Year	Commodity	Value ($ million)	Number of Producers
1974	Potatoes	13.75	3,456
1975	Apples	12.84	3,037
	Sweet Cherries	.62	2,418
	Summer Pears	.25	2,323
	Prune Plums	.47	1,481
	Carrots	.46	N/A
	B.C. Raspberries	.73	N/A
	TOTALS	15.40	
1976	Early Potatoes	3.60	1,361
	Summer Pears	.93	1,160
	B.C. Cherries	1.32	1,324
	B.C. Prune Plums	.33	750
	B.C. Apricots	.13	380
	Greenhouse Tom.	.44	313
	Greenhouse Cukes	.28	258
	Winter Pears	.53	588
	B.C. Late Pears	3.60	1,361
	TOTALS	11.16	
1977	Apricots	.07	381
	Sweet Cherries	.43	1,369
	Onions	4.46	426
	Quebec Apples	3.2	614
	Eastern Potatoes	20.94	3,754
	TOTALS	29.09	
1978	Eastern Potatoes	6.70	3,388
	Onions	.88	315
	TOTALS	7.58	
1979	Greenhouse Cukes	.78	236
	Eastern Potatoes	12.50	?
	TOTALS	13.28	
1980	Greenhouse Cukes	.62	281
	Sour Cherries	.97	629
	Apples	17.20	3,526
	TOTALS	18.79	

Comments By

A.F. Rico
President
Upper Great Lakes Pilots, Inc.

Concerning

U.S./CANADA FREE TRADE AGREEMENT NEGOTIATIONS

Senate Committee on Finance
August 17, 1987

SUMMARY

Trade negotiations with Canada or any other country must not include U.S. maritime policy. The Senate must tell the administration to remove maritime issues from the FTA negotiations.

Upper Great Lakes Pilots, Inc., a Minnesota corporation, employs all United States Registered Pilots servicing foreign vessels transiting Lake Superior, Lake Michigan, Lake Huron and The St. Mary's River. Upper Great Lakes Pilots, Inc. supports the comments and positions put forth to the Senate Committee on Finance by George J. Ryan, President, Lake Carriers' Association.

Upper Great Lakes Pilots, Inc. requests that the Senate require the administration to remove maritime issues from U.S./Canada free trade negotiations.

A F Rico

A.F. Rico
President
Upper Great Lakes Pilots, Inc.

COMMENTS ON THE PROPOSED U.S./CANADA FREE TRADE AREA

by the

U.S. COALITION FOR FAIR LUMBER IMPORTS

On December 30, 1986, the United States and Canada agreed to settle a long-standing dispute over Canadian shipments of subsidized softwood lumber products into the United States market. Under the United States-Canada Softwood Lumber Agreement, the Canadian government agreed to collect a 15 percent export tax on softwood lumber shipped to the United States. Canadian collection of the export tax has helped to offset the subsidy provided to Canadian lumber producers by the noncompetitive sale of government-owned timber for a fraction of its fair market price. By helping to alleviate the trade-distorting effect of the Canadian governments' natural resource subsidies, the Agreement has allowed the U.S. softwood lumber industry to compete on a level playing field with its Canadian counterpart.

The U.S. Coalition for Fair Lumber Imports urges Congress to insure that nothing in a Free Trade Agreement impairs the existence or viability of the Softwood Lumber Agreement. In particular, any provision of a Free Trade Agreement that (1) nullifies the Softwood Lumber Agreement or (2) undermines the efficacy of the Agreement by exempting injurious foreign subsidy practices from redress under the trade laws of the United States, and thus impairs the U.S. lumber industry's ability to enforce the Lumber Agreement, would unfairly injure the U.S. softwood lumber industry and should be unacceptable to Congress.

I. The Coalition's Concerns

The U.S. Coalition for Fair Lumber Imports urges Congress to insure that no provision in a Free Trade Agreement with Canada impairs the continued existence and viability of the United States-Canada Softwood Lumber Agreement. Negotiations between the United States and Canada over a Free Trade Agreement raise two concerns for the U.S. lumber industry. First, the industry is concerned over reports that Canada may seek to nullify the recently negotiated Softwood Lumber Agreement during Free Trade Area negotiations. Second, the lumber industry is concerned that Canada may strive to undermine the efficacy of the Agreement by impeding the rights of U.S. industries to seek redress of injurious foreign subsidies before U.S. agencies.

II. The United States-Canada Softwood Lumber Agreement Must Not Be Jeopardized in the Course of Negotiations

Recent reports in the Canadian press state that Canada may, during negotiations toward a Free Trade Area, seek to nullify the recently concluded Softwood Lumber Agreement. The continued vitality of the Softwood Lumber Agreement is essential. By providing for the Canadian government to collect a 15 percent export tax on softwood lumber bound for the United States, the Agreement has helped to alleviate the effect of the market-distorting subsidies provided to the Canadian softwood lumber industry.

A. Effect of Canadian Government Subsidies Prior to the Softwood Lumber Agreement

From 1975 to 1986, more than twenty-five percent of all U.S. softwood mill employees were driven out of work. Tens of thousands of workers in logging camps and transportation industries also lost their jobs. During this period, over 650 U.S. softwood mills closed their doors. U.S. softwood lumber companies which survived took hundreds of millions of dollars in losses.

The U.S. softwood lumber industry, one of the most efficient in the world, was suffering despite record levels of demand for softwood lumber in the U.S. market. In 1984, a strong housing market boosted U.S. lumber consumption to a record 43 billion board feet. U.S. lumber consumption in 1985 reached a new peak of nearly 44 billion board feet. Despite these record levels of demand, however, lumber prices remained depressed due to the flood of subsidized Canadian lumber imports into the U.S. market.

From 1975 to 1985, Canadian production of softwood lumber more than doubled, reaching 22.4 billion board feet. By 1984, Canada was shipping approximately two-thirds of its total production to the U.S. market. Canada's share of the U.S. softwood lumber market grew from less than 20 percent in 1975, to more than 33 percent in 1985. Despite its efficiency and natural comparative advantage, the United States softwood lumber industry faced economic disaster, largely because of the flood of subsidized Canadian lumber into the U.S. market.

In Canada, approximately 95 percent of timber is owned by the federal and provincial governments. Since the Canadian governments' policy has been to encourage employment in and development of the Canadian softwood lumber industry by subsidizing stumpage, Canadian producers receive timber comparable to U.S. timber at a fraction of the cost. Indeed, for the small fraction of timber that is sold through the competitive Small Business Enterprise Program in Interior British Columbia, sales yield up to ten times the government established stumpage price. As a result of the Canadian timber subsidies, Canadian producers were able to capture an ever-greater share of the U.S. market. Moreover, since Canadian stumpage is priced below a fair market value, Canadian firms overproduced despite depressed lumber prices.

In May 1986, the Coalition for Fair Lumber Imports filed a countervailing duty petition with the Department of Commerce and with the United States International Trade Commission, charging that: (1) Canadian softwood lumber production was subsidized, and (2) subsidized Canadian softwood lumber imports were causing injury to the U.S. softwood lumber industry. In July 1986, the United States International Trade Commission made a preliminary determination that the U.S. softwood lumber industry was materially injured by Canadian softwood lumber imports. In October 1986, the Department of Commerce found that the Canadian policy of selling timber at far below market value, coupled with a plethora of other Canadian government programs, gave Canadian softwood lumber mills a 15 percent subsidy.

On December 30, 1986, the U.S. and Canadian governments successfully reached an agreement to settle the countervailing duty case and to resolve the long-standing dispute between the two countries over Canadian softwood lumber imports. To offset the Canadian subsidy to softwood lumber production, the Canadian government agreed to collect a 15 percent tax on lumber exported to the United States. The United States-Canada Softwood Lumber Agreement has helped to level the playing field for the U.S. lumber industry. As a result, the industry is working diligently to recapture the markets and jobs it lost as a result of subsidized Canadian softwood lumber imports.

B. Importance of Maintaining the Vitality of the Softwood Lumber Agreement

Since the United States and Canada concluded the Softwood Lumber Agreement, the U.S. industry has begun to regain market share. During the first seven months of 1987, the U.S. industry has increased production, mills have reopened, and profits have returned. Unless the United States maintains the vitality of the Agreement during the Free Trade Area negotiations, however, the U.S. industry will again suffer serious injury as a result of Canadian timber subsidies.

III. A Free Trade Agreement Must Not Contain a Dispute Settlement Formula that Impedes the Rights of Domestic Industries to Utilize U.S. Trade Laws

During the course of Free Trade Area negotiations, Canada has repeatedly sought control over the use of U.S. trade laws through exemption from those laws or through a dispute settlement mechanism that gives Canada a veto over their use. Any provision in a Free Trade Agreement that denied the U.S. lumber industry's right to counter Canadian unfair trade practices through effective use of U.S. trade laws would indirectly undermine the Softwood Lumber Agreement. A primary motivation for Canada to abide by the Softwood Lumber Agreement arises from the knowledge that the U.S. lumber industry is willing and able to file and win another countervailing duty case. If a Free Trade Agreement were to provide for a bilateral body to resolve differences in the way the U.S. and Canadian governments view subsidy practices, then U.S. leverage to counter foreign subsidy practices would be far weaker than it is currently. U.S. industries should not be denied the right to seek redress from their government from injurious, unfair foreign subsidies.

IV. Conclusion

There is no more efficient producer of softwood lumber in the world than the United States. We have a comparative advantage in the production of softwood lumber and can compete fairly in world markets. The United States-Canada Softwood Lumber Agreement recently negotiated between the two countries has allowed the U.S. and Canadian industries to compete on the merits, by removing the trade-distorting effect of Canadian government subsidies to softwood lumber producers that had been injuring the U.S. industry. The U.S. softwood lumber industry strongly urges the Congress to uphold the Lumber Agreement and insure the industry's continued ability to compete fairly. Any provision in a Free Trade Agreement that nullified the Lumber Agreement, or that impaired the vitality of the Agreement by impeding U.S. industries' ability to seek redress from foreign subsidies through U.S. trade laws, would impair the ability of the U.S. softwood lumber industry to compete fairly with its Canadian counterpart.

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United States Council for International Business

ABRAHAM KATZ, President

Serving American Business as U S Affiliate of

The International Chamber of Commerce
The International Organisation of Employers
The Business and Industry Advisory Committee to the OECD
The ATA Carnet System

August 7, 1987

The Honorable Lloyd M. Bentsen
Chairman
Committee on Finance
United States Senate
205 Dirksen Senate Office Bldg.
Washington, D.C. 20510

Dear Mr. Chairman:

This letter, submitted on behalf of the U.S. Council for International Business, is in response to the invitation of July 27 issued by your Committee for comments on the U.S.-Canada free trade area negotiations. The U.S. Council supports a comprehensive agreement which results in the eventual removal of both tariff and non-tariff barriers to substantially all trade and investment between the two countries.

The U.S. Council for International Business, with a membership of some 300 companies, other firms and organizations, represents American business positions in the major international economic institutions. Its primary objective is to promote an open system of world trade, finance and investment. Through its affiliations with the International Chamber of Commerce (ICC), the Business and Industry Advisory Committee to the OECD (BIAC), and the International Organization of Employers (IOE), the Council officially consults with the United Nations system (including the GATT), the OECD and the International Labor Organization (ILO). The Council is also a member of the American Coalition for Trade Expansion with Canada (ACTE/CAN) and has endorsed its Statement of Purpose concerning the free trade area negotiations.

In a statement issued jointly with the National Foreign Trade Council in January, 1986, the U.S. Council welcomed the Canadian proposal for negotiations. We emphasized that "all issues deemed to be a hindrance to open trade should be subject to negotiations." We laid special stress on the need for an eventual agreement to cover all aspects of U.S.-Canadian commercial relationships including barriers to trade or investment imposed by individual states or provinces as well as the two federal authorities; the need to include measures assuring effective protection of intellectual property rights, and movement toward a more open regime for trade in services.

The Council's committee on Services Trade has subsequently communicated its views about specific problems of trade in services to our negotiators, including Secretary Baker and Ambassador Yeutter, which it recommends the negotiations address and resolve. We would be happy to share these recommendations (which are too lengthy to fit the format required by the Committee for this submission) if you would like to have them.

In each of our communications to the U.S. Government on this matter, we have consistently underlined our hope that successful agreements on the issues covered in these negotiations could serve as models for regimes that we hoped could be negotiated on a broad, multilateral basis in the context of the GATT's Uruguay Round. We therefore welcome the emphasis which you and members of your Committee placed on consistency with GATT rules in your press conference of August 5.

In that regard, the U.S. Council has also made several recommendations to the government concerning specific objectives which we believe should be sought in the Uruguay Round. In view of the importance which the Canadians appear to attach to a bilateral dispute settlement process, and the attention you and others gave to this issue in your press conference, we would like to call the Committee's attention to the Council's position on a new dispute settlement process for the GATT, which we have previously recommended both to the U.S. Trade Representative as a U.S. negotiating objective, as well as to the International Chamber of Commerce as a proposal for endorsement by the international business community. Consistent with our view that U.S.-Canada agreements could serve as models for Uruguay Round results, we believe that a bilateral dispute settlement process along the lines we have recommended for the GATT as a whole may have considerable merit.

The elements of the new process we have proposed for the GATT are summarized in the attached paper which we have proposed to the ICC. Those elements which we believe could be considered for incorporation in a U.S.-Canada agreement include the following:

1) Both parties would nominate individual, non-government experts with recognized experience and proven competence in international trade or investment matters. These experts would constitute a standing body from which specific members would be drawn to carry out the responsibilities described below.

2) As regards issues arising from the implementation of the free trade area agreement, including disputes arising from the invocation by either party of the remedies from either fair or unfair competition provided in each party's domestic laws, the U.S.-Canada agreement could establish an arbitration procedure as an alternative to use of the usual GATT panel procedures. Resort to arbitration would be voluntary, and more specific arrangements might be required in particular cases (as defined in the agreement), but the result would be final; approval by the GATT Council would not be required. The award of the arbitration tribunal would not be binding and either party would be free to take such action as it deemed necessary. However, a party failing to implement the decision would have to make compensation or accept retaliation, as the other party determined.

For example, if the U.S. were to bring a complaint against a Canadian practice under the U.S. countervailing duty law, it would, at an appropriate time during the proceeding, request an arbitral tribunal. If the tribunal awarded the case to the U.S., Canada would either have to remove the practice or face U.S. countervailing duties. Alternatively, if the award went against the U.S., the U.S. could either drop the case or impose the duties anyway. If the latter, Canada could either require compensation or retaliate without risking counter-retaliation. In either case, no reference to the GATT would be necessary, since the restrictive actions (whether safeguard, anti-dumping, countervailing or Section 337-type) only affect trade between the two countries pursuant to a GATT-consistent free trade agreement.

3) Expedited and enforceable deadlines should be established for use of the dispute-settlement process. There should be provisions under which an injured party would be free to take retaliatory (or defensive) action if the tribunal does not act on its complaint within a set time and through no fault of the injured party. The panel should, however, continue the case to a conclusion and there should be a provision for curing a default if it is later determined that the complaint is unjustified.

As can be seen from comparing the above procedures with our recommendations for a new GATT process, there is a close parallelism, with differences dictated only by the fact that the bilateral process is engaged because there is a GATT-consistent free trade area between the two parties. That, of course, is our bed-rock assumption. If the eventual U.S.-Canada Agreement falls significantly short of GATT requirements, it would probably not meet the criteria upon which the U.S. Council's support for the negotiations has been premised. However, if it does meet those criteria, the proposed bilateral process could strengthen the prospects for the kind of GATT reform which we favor.

I hope these comments will be helpful to the Committee as it moves to examine any agreement which may eventually emerge from the current U.S.-Canada negotiations.

Sincerely,

Abraham Katz

Abraham Katz
President

July 17, 1987

Dispute Settlement [1]

The International Chamber of Commerce (ICC) believes that improvement of the dispute settlement process is a desirable objective for early results in the Uruguay Round. A better dispute settlement procedure would generally enhance the effectiveness of the GATT benefiting all GATT members.

The GATT dispute settlement process is often perceived to be ineffective. Generally, three types of problems are cited: a) politicized panel findings; b) persistent procedural delays and difficulties; and c) lack of political will among parties to accept panel reports. These difficulties remain despite the fact that the process has been generally adequate to manage the majority of cases. The process works well where the issues are narrowly focused or technical. Many cases are settled or withdrawn before panel reports are issued to avoid undesirable confrontations. GATT members approve panel findings in the vast majority of cases.

It is clear that the performance of the dispute settlement machinery has deteriorated over the past ten years in terms of (a) the lapse of time between initiation of complaints and the adoption of reports (10 months average before 1975 - 16 months past 1975); (b) the failure to adopt reports (none before 1979; five thereafter) and (c) failure of compliance by the party concerned.

The major problem with controversial cases is the political will of the Contracting Parties: the dispute settlement process does not work well in dealing with contentious issues, particularly those between the United States and the European Community. The U.S. has been the major complainant until recently, and many of the disputes have involved agriculture, illustrating that process cannot make up for vague or limited consensus on rules. More recently the European Community has become the major plaintiff with cases on semiconductors and customs user fees.

The ICC urges GATT Contracting Parties to agree on improvements based on the following 5-point program for reform of the GATT dispute settlement procedures:

(1) Mediation. The Director-General of GATT would be directed to offer to mediate disputes before they reach the panel stage. Either party would have the right to reject or terminate mediation. Under present practice, the GATT Secretariat rarely offers mediation.

(2) Arbitration. The Contracting Parties would establish an arbitration procedure as an alternative to the panel procedures as a means of dispute settlement. Resort to arbitration would be voluntary, more might be required in a particular class of disputes, but the result would be final; approval by the GATT Council would not be required. The award of the arbitration tribunal would not be binding, but a party failing to implement the decision would have to make compensation or accept retaliation.

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[1] A draft statement submitted by the U.S. Council for International Business to the ICC Trade Commission.

(3) Deadlines. Expedited and enforceable deadlines would be established for each stage of the traditional GATT dispute settlement procedure (Consultation, Panel, Council, Party implementation) and for the procedure as a whole. These deadlines would be enforced by automatic termination of the consultation phase and by automatic discharge of the panel. There would be a clear understanding that an injured party will be free to take retaliatory action if no decision is taken on its complaint by the Council, or if the Council's recommendations are not implemented within the times specified. The procedure should be designed to force the panel and the Council to act within firm deadlines, but it should be sufficiently flexible to accommodate brief delays in filing papers, and there might be a provision for curing a default if it is later determined that the complaint is unjustified.

(4) Non-Governmental Experts. The traditional practice of constituting panels from the Geneva delegations of GATT member governments would be superseded by the use of neutral non-governmental experts drawn from an expanded, standing panel of distinguished experts. Alternatively, the panels might be composed of an expert designated by each party and one or three additional experts to be selected by agreement or, presumably, by the Director-General. The Contracting Parties took a step in this direction on November 30, 1984, when they authorized the Director-General, on a trial basis for a period of one year, to establish a short roster of non-governmental experts and to complete panels, if the disputing parties cannot agree within thirty days, by appointments from that list.

(5) Declaration. The Contracting Parties would issue a new Declaration affirming their commitment to the settlement of trade disputes by means of these procedures, including specific pledges to use the process, to abide by the results, and to recognize that failure to implement the recommendations will give rise to a right to compensation or retaliation on the part of the injured party.

These improvements would apply both to the general procedures established under Articles XXII and XXIII of the GATT and to the specific procedures established under the Codes negotiated in the Tokyo Round. It would not be necessary to amend the General Agreement, as such, provided the procedures are adopted by consensus of the Contracting Parties and by the parties to each affected Code. Each Government would authorize these measures, and the other results of the MTN, through its own constitutional procedures.

The ICC urges early agreement on these improvements as a matter of priority to strengthen the GATT system and stem the erosion of its credibility. Clearly such improvements would benefit all GATT members and therefore should not require concessions or trade-offs with other proposals or negotiating areas. The proposals for voluntary mediation and reaffirmation of political will to resolve trade disputes are useful elements in a balanced package and should be relatively non-controversial. The selection of non-governmental experts builds on steps already underway, and while the arbitration proposals would be of marginal benefit because of their voluntary character, there may be long-term advantages in developing a special arbitration procedure for trade issues that may be put to wider use in the future. As these provisions are negotiated, it is important that provision be made to protect third-party interests in all stages of GATT dispute settlement by notice and opportunity for comments as appropriate in the particular case.

Committee on Canada-United States Relations

United States Section

U.S. Chamber of Commerce
1615 H Street, N.W.
Washington, D.C. 20062
202/463-5488

Chairman: *Raymond F. Farley*
President and Chief Operating Officer
S.C. Johnson & Son, inc

CANADA-U.S. FREE TRADE NEGOTIATIONS

Statement of

United States Section of Canada-U.S. Relations Committee

- Canada-U.S. Committee is a joint arrangement of Canadian and U.S. Chambers of Commerce. It was organized in 1933 to work for the closest business relations between the two countries.
- Committee has supported objectives of a new bilateral free trade arrangement since it was first proposed. Has contributed by commissioning research into key aspects of the proposal including the benefits to the United States and the elements of a workable dispute settlement and avoidance mechanism.
- Proposed agreement is a positive trade policy initiative at a time when negative forces are gaining strength: success would provide practical model for trade liberalization on multilateral basis.
- No status quo to return to in the event the negotiations fail. Economic nationalism would gain strength in Canada if the talks collapse.
- A compromise on dispute settlement can be developed. Most parties to trade disputes would welcome access to "alternative dispute resolution," involving proven conciliation and mediation procedures but that would leave trade laws of both countries intact.

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The Committee, founded in 1933, operates under the aegis of the Canadian Chamber of Commerce and the Chamber of Commerce of the United States.

Committee on Canada-United States Relations

United States Section

U.S. Chamber of Commerce
1615 H Street, N.W.
Washington, D.C. 20062
202 463-5488

Chairman: Raymond F. Farley
President and Chief Operating Officer
S.C. Johnson & Son, Inc.

August 17, 1987

The Honorable Lloyd M. Bentsen
Chairman
Committee on Finance
United States Senate
205 Dirksen Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

As Chairman of the U.S. Section of the Canada-United States Relations Committee, I am pleased to respond to the Finance Committee's request for comments on the Canada-U.S. free trade proposal.

The Canada-U.S. Relations Committee is a joint arrangement of the Canadian and U. S. Chambers of Commerce. It was established in 1933 to respond to the opportunities presented by the Reciprocal Trade Agreements Act. Since then, the committee has played a role in most significant issues in Canada-U.S. economic relations.

The Committee is firmly on record in support of a comprehensive free trade agreement with Canada. This initiative provides a rare opportunity to eliminate a wide range of two-way trade and investment restrictions. If successful, the United States would enjoy an enhanced and unencumbered economic relationship with its major trade partner. We have no reservations about the benefits to the United States of a free trade agreement with Canada: however, it must be truly reciprocal and as comprehensive as possible.

The benefits of a bilateral free trade pact have been detailed exhaustively elsewhere. I shall not repeat them here. Our committee has commissioned several studies on this and other aspects of the proposed agreement and copies have been provided previously to the Committee on Finance.

In this letter I wish to highlight certain factors bearing upon the outcome of the negotiations and the role of Congress that we believe should receive more attention.

First, the proposed agreement represents a positive trade policy initiative at a time when more negative forces are gaining strength. In the trade context, the Canadian and U.S. economies are already intertwined to a large extent so that the proposed agreement may be viewed as an exercise to complete the process of integration. Success in the venture would provide a practical model for trade liberalization on a multilateral basis. Failure, on the other hand, would raise questions about our ability to negotiate and secure significant trade concessions with other partners, multilaterally and bilaterally.

A related consideration here is the perception that, should the negotiations fail, then both countries could revert to the status quo. In the event of failure, however, there will be no return to things as they were: it is much more likely that we will experience a serious deterioration in bilateral relations. The issue is extensively politicized in Canada with opponents to the pact organized along economic nationalist lines. Their influence will surely grow should the negotiations end in failure, bringing about a reversal of the liberalizing trends of recent years.

A third consideration requiring special attention concerns the respective Canadian and U.S. views on dispute settlement in the context of a comprehensive free trade pact. There is a widespread perception that the Canadian government will insist upon a degree of freedom from U.S. trade law that would be unacceptable to Congress. The committee has explored this issue at length in an endeavor to identify the elements of a mechanism that would preserve the integrity of established trade law while introducing measures for more efficient ways of handling trade disputes. The issue of subsidies is a major part of the problem, although we believe that an agreement as to the types of subsidy that would trigger trade law action would remove much of the uncertainty that troubles the Canadians.

We have consulted with representatives of government, business and the legal profession in both countries in the design of an acceptable dispute mechanism. The system that has emerged would leave the existing trade law intact but would include procedures to encourage and facilitate the voluntary resolution of bilateral trade disputes. As also noted in the August 4 report of the Northeast-Midwest Congressional Coalition, our findings point to a two-body system, comprising a bilateral conciliation panel and an executive body, or Joint Trade Commission. The primary purpose of this two-tier system would be to resolve as many disputes as possible before they reach the trade law stage. We are convinced that parties to most trade disputes would welcome access to "alternative dispute resolution", based upon proven conciliation and mediation procedures well established in both countries.

The basic elements of this mechanism are set out in the enclosed resolution adopted at the committee's last meeting in April 1987. We expect to approve a final version at our next meeting, September 13-15, in New Brunswick. This version will reflect recent discussions under committee auspices between members of the American Arbitration Association and the Arbitration Institute of Canada.

We look forward to providing you with details of our final recommendations on dispute settlement and avoidance, and would appreciate the opportunity to discuss them with you in person.

The enclosures include recent committee resolutions on the free trade proposal in general, and on the issue of trade remedy practices which distort trade and investment. Also, enclosed is a background brief on the origins of the committee and its scope.

In conclusion, let me reiterate that our support for a comprehensive bilateral trade agreement has evolved through a long process of consultation with business and government at all levels and in all parts of Canada and the United States. We are convinced that the long term benefits will far outweigh the cost of adjustment to new competition that may be necessary on both sides of the border.

We appreciate the opportunity to share our views with the Committee on Finance and applaud your commitment to opening the public debate at this early date.

Sincerely,

Raymond F. Farley

Raymond F. Farley

Enclosures

Committee on Canada-United States Relations

United States Section

U.S. Chamber of Commerce
1615 H Street, N.W.
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202/463-5488

Chairman: Raymond F. Farley
President and Chief Operating Officer
S.C. Johnson & Son, Inc.

RESOLUTION

ON

CANADA-U.S. FREE TRADE AGREEMENT

Recognizing the strong commitment toward conclusion of a comprehensive trade agreement between our two countries, as covered by the statements of Prime Minister Mulroney and President Reagan during their meeting in Ottawa on April 5-6, we fully support the effort of the U.S. and Canadian governments in seeking such a free trade agreement. With a view toward increasing the commerce between Canada and the United States in goods and services, we recommend that our respective congressional and parliamentary representatives support and expedite the conclusion of the negotiations toward a comprehensive trade agreement which will lead to the substantial elimination of all barriers to cross-border commerce.

We encourage the pursuit of such an agreement which would embody as a minimum appropriate provisions dealing with the following issues:

- Commercial policy, including customs procedures, tariffs, supply access, and rules of origin
- Contingency protection/trade remedy practices and subsidies
- Government procurement
- Intellectual property, including trademarks and copyright law
- Trade in services
- Dispute avoidance and settlement mechanism
- Investment
- Agriculture
- Other restrictions to market access, including non-tariff barriers, such as standards and export/import restrictions

The pursuit of these negotiations is a constructive effort toward trade liberalization which may serve as an example in strengthening broader multilateral trade negotiations and agreements.

April 3, 1987 Scottsdale, Arizona
108th Semi-Annual Meeting of the Committee on Canada-U.S. States Relations

Committee on Canada-United States Relations

United States Section

U.S. Chamber of Commerce
1615 H Street, N.W.
Washington, D.C. 20062
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Chairman: Raymond F. Farley
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RESOLUTION
ON
TRADE AND INVESTMENT DISPUTES

In the context of the free trade agreement being negotiated between the United States and Canada, the private sectors of both countries have a vital interest in the creation of a mechanism to avoid and settle trade and investment disputes. There should be a formal private sector role in the avoidance and settlement mechanism established to deal with bilateral disputes.

The Committee suggests that the two governments consider the following points in organizing their approach to the treatment of disputes under the terms of a bilateral agreement:

- There should be a dispute avoidance mechanism established as part of the free trade agreement to deal specifically with private sector to private sector disputes;
- Representatives from the private sector should have a formal role to play in the activity of trade dispute avoidance and settlement;
- The dispute avoidance and settlement process should provide a legal means under the free trade agreement for an industry or person in either country to bring a problem for resolution;
- The dispute avoidance mechanism, its organization, management, and activity, should be part of the free trade agreement, under its aegis, but free to deal legally with disputes in a non-political manner with the ability to select public or private persons expert in dealing with specific problems through the process of consultation, negotiation, mediation, conciliation and arbitration as, or when, appropriate;
- The dispute avoidance and settlement process should involve a permanent secretariat organized to deal with and review disputes brought to it, to conduct fact-finding, for the most part through existing government fact-finding agencies, to access third party experts and ad hoc advisory committees, and to establish a process for dispute avoidance and settlement using one or more mechanisms established by the free trade agreement and under its authority.
- The dispute avoidance and settlement mechanism should include a mandatory first review process.

A working group of the Committee will continue to study mechanisms and procedures for avoiding and resolving trade and investment disputes and will be available to the U.S. Trade Representative's Office and the Trade Negotiation Office in Canada.

April 3, 1987
Scottsdale, Arizona
108th Semi-Annual Meeting of the Committee on Canada-U.S. States Relations

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202/463-5488

Chairman: Raymond F. Farley
President and Chief Operating Officer
S.C. Johnson & Son, Inc.

RESOLUTION
ON
TRADE REMEDY PRACTICES

The Joint Canada-United States Relations Committee:

- Recognizes and strongly endorses the creation of a more predictable environment for trade and investment decisions as a fundamental objective/requirement of a bilateral free trade agreement between Canada and the United States;

- Calls for a comprehensive free trade agreement under which all tariffs, quantitative restrictions, regulations, restrictive customs procedures, and other barriers to trade would be eliminated at the conclusion of a transition period, and calls for the establishment of new rules for investment, intellectual property, trade in services, government procurement, and the use of trade remedy laws;

- Recommends that the private sector exercise greater restraint in seeking government support for increased protection against fair cross-border competition;

- Calls on the national, provincial, state and local governments of the United States and Canada to exercise tighter discipline on the use of subsidies which distort trade and investment;

- Urges the two national governments to:

  a) produce a list of practices and programs which would not give rise to trade remedy measures;

  b) produce an agreed list of prohibited subsidies;

  c) define the criteria by which other alleged subsidies would be judged.

Finally, the Committee believes that the agreement should include appropriate institutional mechanisms to implement and enforce the agreement, including private sector access to and involvement in an effective dispute settlement process which would include advisory opinions to private entities on material issues.

April 3, 1987 Scottsdale, Arizona
108th Semi-Annual Meeting of the Committee on Canada-U.S. States Relations

The Committee, founded in 1933, operates under the aegis of the Canadian Chamber of Commerce and the Chamber of Commerce of the United States.

Committee on Canada-United States Relations

United States Section

U.S. Chamber of Commerce
1615 H Street, N.W.
Washington, D.C. 20062
202/463-5488

Chairman: Raymond F. Farley
President and Chief Operating Officer
S.C. Johnson & Son, Inc.

THE COMMITTEE AT A GLANCE

CANADA - UNITED STATES RELATIONS COMMITTEE

1615 H Street, NW, Washington, D.C. 20062
Phone: (202) 463-5488 Telex: 248302

BACKGROUND

The Canada-United States Relations Committee is a joint committee of the United States Chamber of Commerce and the Canadian Chamber of Commerce. At its first meeting on May 4, 1933, it adopted an operational mandate stating that:

> The Committee proposes in general to work for the close, friendly relations between Canada and the United States, and, as a first step, hereby agrees to use its best efforts to bring about, where necessary, modifications or administrative regulations affecting commerce, communications, and relations of every sort between the two countries. The principle agreed upon by the Committee is that the standard for each case should at least equal in liberality that of the country which now provides the more liberal regulations for such case.

The Committee's frame of reference later evolved to include those subjects pertaining to:

- internal developments in one country which parallel internal developments in the other country;
- across-the-border developments mutually affecting both countries directly or indirectly;
- world problems and relationships affecting both Canada and the United States.

Within these general guidelines, the Committee has produced results on many significant issues in Canada-U.S. business relations. The Committee was the catalyst in bringing about the 1935 Trade Agreement between Canada and the United States. Several years later, the Committee produced the first set of guidelines for international corporate conduct and held one of the first discussions on the role of the "multinational" corporation. Over the years, the Committee's influence has extended to most Canadian and U.S. issues of importance. These include problems associated with economic policy, trade and investment as well as defense sharing, Great Lakes pollution, and offshore boundaries.

The Committee, founded in 1933, operates under the aegis of the Canadian Chamber of Commerce and the Chamber of Commerce of the United States

The mode of operation in addressing an issue is to first develop agreement between the two national sections as to its disposition. Subsequently, the sections work closely, often utilizing joint working groups, in implementing recommendations adopted by the Committee.

Each national section consists of up to 40 senior executives from corporations active in Canada-U.S. business. Meetings are held in Canada in the fall and in the United States in the spring.

THE COMMITTEE IN 1987

The Committee is expanding its activities in response to the burgeoning interest in Canada-U.S. issues, stimulated by the joint commitment to negotiate a bilateral free trade agreement by the end of 1988. This provides the Committee with an opportunity to represent and reconcile private sector concerns on both sides of the border.

While each country has been the other's main trading partner for generations, the mutual perception of economic disputes, while not always amicable, has traditionally been muted. More recently, as demonstrated in the shakes and shingles case, there has been an increasing tendency to be more vocal.

Among the outstanding problems to be addressed in a new round of trade talks, a priority American concern is the relatively high level of Canadian tariffs, a constant problem to specific U.S. export industries. Then, Canadians are concerned by the high level of U.S. ownership of key Canadian industries. This has led to Canadian government restrictions on foreign investment and other actions which are particularly burdensome to U.S. companies and which do not necessarily produce any offsetting benefits to Canadian industry, workers and consumers.

Canadians also are naturally sensitive to the extraterritorial extension of U.S. laws, which because of the large U.S. economic presence in Canada has serious implications for Canadian sovereignty.

Reflecting the cultural similarity and geographical proximity of Canada and the United States, there is a lack of "foreigness" in mutual perceptions reflected in the relative lack of private bilateral institutions. There is no "U.S. Chamber of Commerce" in Canada, nor are there any "Canadian-American Chambers of Commerce" in the United States, which would concern themselves with day-to-day trade and investment issues in the manner of the French-American Chamber in New York, or the American Chamber of Commerce in Japan, for instance.

Accordingly, the Committee is in a unique position to influence events, representing direct access to the two governments for the views of the respective business sectors.

The Committee's 1987 program of work is focusing on the proposed bilateral free trade pact. The Committee is on record firmly in support of the trade proposal subject to the resolution of outstanding trade disputes.

Under the Chairmanship of Raymond F. Farley (President and Chief Operating Officer, S.C. Johnson & Son, Inc.), the United States Section of the Committee has a three-stage program under way to build public and Congressional support for the proposed agreement.

One, studies have been commissioned to determine the precise benefits to both countries of freer trade and investment. These studies were released at the March 1986 meeting of the Committee and are being distributed widely in the United States and Canada.

Two, studies have been commissioned to determine the precise form of a workable disputes settlements mechanism. This would be a key part of the administrative structure that will have to be established to monitor and implement the trade agreement. The recent furor over the shakes and shingles case, underscores the importance of a mechanism that can help defuse trade and investment disputes before they reach the explosive stage.

Three, the section is developing a nationwide information network on Canada-U.S. economic issues, in the context of the proposed trade agreement. A survey has been conducted to identify those major corporations, chambers of commerce, business organizations, trade and professional associations, state and local government agencies and others with a significant interest in Canada-U.S. trade and investment.

Purpose of the survey is to identify the United States constituency for closer economic relations with Canada. Respondents have been placed on mailing lists and are being kept updated on key developments so that their interests are represented in the negotiations.

Just prior to the Committee's meeting in October 1982, President Reagan acknowledged the work of the Committee by noting that "thoughtful Canadians and Americans realize that if our two great nations are to achieve their full potential, their private business sectors must be actively involved and in full communication." The President stated that "for fifty years, the Committee has provided an essential link in furthering cooperation between Canada and the United States."

The 109th meeting of the Committee will be in St. Andrews, New Brunswick, September 13-15, 1987.

Executive Secretary
Fred Stokeld
(202) 463-5488

United Steelworkers of America

DISTRICT No 28 / AFL-CIO-CLC

7055 Engle Road / Suite 5-501 / Middleburg Heights, Ohio 44130

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Director

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Advisory Committee
C T ARMSTRONG
ALFRED F CAPONE
THOMAS FAIR
HERB STOTTLER
TOM THOMAS

August 20, 1987

ATTN: Laura Wilcox
Hearing Administrator
Committee on Finance
Room SD-205
United States Senate
Washington, D.C. 20510

U.S./CANADA FREE TRADE AREA AGREEMENT NEGOTIATIONS

Please be advised that we are opposed to any changes to the Jones Act that would provide for any foreign vessel, be it Canadian or otherwise, to run from American Port to American Port; for any such provision would most certainly lead to the demise of the American Maritime Fleet, or I should say, that which remains!

Respectfully,

C. T. Armstrong
Staff Representative
Local Union 5000

CTA/lh

cc: Mary McAuliffe, Minority Chief of Staff
United States Senate, Committee on Finance

WATERMAN
STEAMSHIP CORPORATION

CABLE ADDRESS "WACOR"
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120 WALL STREET
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BRANCH OFFICES
CHICAGO
HOUSTON
DALLAS
LOS ANGELES

BRANCH OFFICES
MOBILE
SAN FRANCISCO
NEW ORLEANS
WASHINGTON

August 14, 1987

U.S. Senator Lloyd Bentsen, Chairman
Senate Finance Committee
Suite 215
Dirkson Office Building
Washington, D.C. 20501

Dear Senator Bentsen:

The United States and Canada are currently negotiating a Free Trade Area Agreement to remove tariff and non-tariff barriers to trade between our two nations. This will threaten the long standing United States Maritime Policy essential to our shipyard, inland tug and barge industry, the Great Lakes fleet, the off-shore oil and gas service industry and both our international and domestic maritime fleets. Due to the gravity of these potential consequences we believe strongly that all proposals relating to our Merchant Marine Promotional Programs should be taken off the negotiating table and not be included in the final Free Trade Agreement.

The full impact of including U. S. maritime programs in the proposed Free Trade Agreement on the nations ecconomy has not been fully considered. We find this inattention to national security especially distressing in view of the recent finding of insuficient sea lift assets contained in the first ever "Presidential Report on National Security". The critical situation described in the report will become even more dire in later additions if the United States Merchant Marine and shipbuildiong capacity are decimated in the haste to reach a Free Trade Agreement with Canada.

We wish to alert you to the dangers of including basic U. S. Maritime Policies in the Free Trade Agreement, and ask for your surport in seeking their complete removal from the negotiating process.

Very truly yours,
WATERMAN STEAMSHIP CORPORATION

George H. Hearn
Executive Vice President

WEE WIN TOYS™
Leading the way to wholesome play

David L. Lewis
President
Chief Executive Officer

August 11, 1987

Senate Finance Committee
c/o Laura Wilcox
Hearing Administrator
Committee on Finance
Room SD-205
United States Senate
Washington, D. C. 20510

Dear Sirs:

I applaud and congratulate each of you on the Senate Finance Committee on the elimination of duties on products being imported and exported between Canada and the United States.

Neighbors should assist and help each other in times of turmoil and economic distress.

Further, I am reminded that a "double braided cord" is stronger than a single strand of rope.

Senators, I urge you to progressively pursue expeditious passage of this legislation.

Very truly yours,

David L. Lewis

David L. Lewis
President

DLL/sll

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COMMENTS ON THE U.S.-CANADA FREE TRADE AREA NEGOTIATIONS

ON BEHALF OF

WINE INSTITUTE

AND

ASSOCIATION OF AMERICAN VINTNERS

1. The Wine Institute and the American Association of Vintners support the negotiation of an agreement that will create a free trade area between the United States and Canada.

2. For the alcoholic beverage industry in general and the wine industry in particular, a free trade area that removes the existing national and provincial tariff and non-tariff barriers to the sale of wine and other alcoholic beverages will significantly benefit the industries in both countries.

3. The removal of national tariffs alone will only benefit the Canadian alcoholic beverage industry. Canadian wines can be sold openly and freely in over 65% of the U.S. market. Controlled sales under State Monopoly systems in the remaining market are non-discriminatory. By comparison, 100% of the Canadian market is controlled by provincial liquor monopolies that exercise discriminatory purchasing, pricing and distribution policies that effectively restrict the sales of U.S. wines in Canada.

4. Removal of the Canadian tariff and promises by the Canadian government to make "best efforts" to remove the discriminatory practices will not open the Canadian market for U.S. wines. The provincial policies and practices that unfairly discriminate and burden U.S. wines sales must be removed before a free trade area would prove to be of any benefit to the U.S. industry.

5. The alcoholic beverage issues are on the table and we commend Ambassador Murphy and his staff for the efforts they are making to seek the removal of these barriers during these negotiations. It is now up to the Canadians respond.

* * *

The Wine Institute, representing more than 590 California wineries and the Association of American Vintners, a trade association representing 128 wineries in 30 states, together representing virtually 100% of U.S. wine production, submit these comments to the Committee on Finance in the United States Senate in response to the Committee's request dated July 27, 1987.

The Canadian market has traditionally been the largest export market for U.S. produced wine. Because of the many discriminatory barriers maintained by the provincial governments, sales have dropped off in recent years, while other foreign markets, such as Japan and the United Kingdom are fast becoming larger export markets for U.S. wine products. A free trade area agreement that would remove those barriers would allow U.S. wine producers access to those Canadian markets equal to the access the U.S. gives to Canadian wines, beers and distilled spirits. Such a free trade area would also provide some preference in both markets for North American alcoholic beverages over third country products. For these reasons, the wine industry fully supports the conclusion of a Free Trade Area Agreement with the Canadian government.

Canadian alcoholic beverages enjoy significant sales in the United States. Canadian whiskey is the largest selling whiskey import and Canadian beers are the second, forth and fifth largest selling beer imports. Canadian wines, while still very small in volume, have increased sales in the U.S. by over 50% in the last two years. Removal of the U.S. tariffs on these products will lower their retail price to the consumer and improve their competitiveness, particularly in relation to other imports. By comparison, U.S. wines, beers and distilled spirits have little access to the Canadian market because of the provincial liquor monopolies that control all sales in 100% of the Canadian market. Removal of the Canadian tariff on these products would lower the retail price somewhat on those few items purchased or "listed" by the monopolies but would not significantly increase sales.

In the past, the Canadian Federal Government has "promised to makes its best efforts" to seek reductions in these provincial barriers. Most of the barriers discriminate unfairly against imports over Canadian domestic product and should have been removed under international standards of fairness many years ago.

Those promises have not been kept and any free trade agreement that only removes the national tariff and does not actually provide for the removal of the unfair and burdensome provincial barriers will not benefit the U.S. wine industry. Promises would not be acceptable and we request the U.S. Senate to reject any agreement that does not include substantial concessions from the provincial discriminatory practices against U.S. wine imports.

The requests of the U.S. industry have been clearly and forcefully presented to the Canadian negotiators during the last year of talks. The issue has received high priority from Ambassador Murphy and we commend him and his team for their understanding of this complex and difficult problem. It is now up to the Canadian government entities, including the provincial governments, to respond positively to these requests.

The Senate passed the Wine Equity Act as part of the 1984 Tariff and Trade Act. This statute provides for the Administration to seek the removal of these long-standing barriers. This issue was made part of the free trade talks by the Administration with the concurrence of Congress and the wine industry. It is the desire of the industry that these talks be successful in removing those barriers so that neither the Congress nor the Administration will have to resort to more drastic trade measures to obtain access to the Canadian market for wines, equal to the access the Canadians enjoy in the United States.

The Wine Institute and the Association of American Vintners thank the Committee for this opportunity to present comments on the progress of the free trade talks. Attached is a copy of the alcoholic beverage section of a report prepared by the Northeast-Midwest Congressional Coalition on their "Recommendations for U.S.-Canada Free Trade Agreement". This section briefly outlines the discriminatory practices of the Canadian liquor control boards towards U.S. alcoholic beverages. The industry will be happy to provide additional material to the Committee.

ALCOHOL PRODUCTS

In trade with Canada, the United States has to contend with tariff and non-tariff barriers at both national and provincial levels. Provincial barriers are especially difficult to address because the United States can negotiate only with the Canadian federal government, which has the responsibility of bringing the nine provinces into a binding agreement. Provinces have the authority to set their own rules and regulations in certain areas. Many of these restrictions have effectively shut U.S. companies out of markets worth millions of dollars in potential sales. The United States cannot afford to negotiate a new trade agreement without discussing these unfair provincial barriers to trade, and ensuring that they are permanently removed.

BACKGROUND

A classic example of a provincial barrier and one which greatly affects the Northeast-Midwest region is the Provincial Liquor Control Boards (LCBs). The Canadian beer and wine industries are generally not as developed as the American beer and wine industries. In particular, Canada considers its wine industry to be an infant industry. To protect the alcohol interests of the provinces, the Canadian government has given each province the authority to form and govern its own LCB. Each LCB has developed its own set of regulations to control trade in alcohol in its respective province.

The LCBs "list" each brand that they allow to be sold in the province; they "mark-up" prices on local and imported products (including liquor from other provinces) in order to cover the cost of shipping, promotion, marketing; and they control distribution of listed goods to the dealers in the province. The LCBs use these policies to severely restrict American breweries and wineries from significantly participating in the Canadian market. U.S. exporters could gain an estimated $25-$100 million more annually in sales in Canada if barriers were removed. According to a USTR Report on Barriers to Free Trade (1986), the American wine exporters have lost $6.7 million annually in the Canadian market since 1981 because of the discriminatory practices of the LCBs. These practices affect many of the 56 breweries and 387 wineries in the region dramatically. It is in the best interest of the United States to negotiate with Canada to reduce the unfair trading practices affecting our alcohol products.

PROVINCIAL LIQUOR CONTROL BOARD PRACTICES

Listings

Each domestic or foreign company that wishes to sell its product in Canada must file an application with the LCBs. The applications are reviewed on an average of twice annually. For the most part, U.S. products are turned down. In Ontario, Canada's largest province, the United States has only 42 of the 570 imported wines listed. Between 1982 and 1985, every application from U.S. wine manufacturers was turned down. Last year in Quebec, France had 400 listings and Italy had 100, while the United States had only 21. Much of this discrimination comes from the fact that Canada earmarks most European wines for the higher end of the market, which is more accessible to imports, while American wines are restricted to the middle and lower priced markets. There is still much discrimination in lower markets, however. After negotiations were conducted between the U.S. wine industry and administrators of the LCBs in 1985, over 120 applications were filed for review. By May 1986, Ontario had granted only 20 of these U.S. applications. These restrictions are even more unreasonable in light of the fact that Canadians are consuming 47 percent more wine than they were five years ago, during which time the U.S. share of the Canadian wine market actually declined.

Mark-ups

Once a product is listed, the LCBs decide how much of a mark-up (or tax) will be added on to the price of the product. Most provinces have a lower mark-up for local alcohol products, and usually charge higher mark-ups on products from other provinces, with even higher mark-ups on non-Canadian liquor. In Quebec, for example, imported wines are marked up 125 percent, while local wines are increased 94 percent and wines from other provinces are increased 105 percent. British Columbia marks up imports 110 percent, compared with 50 percent for domestic wines. Last year Ontario decreased the mark-ups on imported wines from 123 percent to 66 percent. At the same time, Ontario lowered the mark-ups on its local wines from 58 percent to 1 percent. The reduced mark-ups on imported wines are still discriminatory since the differential between imported and domestic wine mark-ups remains the same, making U.S. wines no more cost-competitive vis-a-vis Canadian wines than before the reduction.

Distribution

Provincial distribution also poses a serious restraint for U.S. alcoholic beverages. Of the 9,000 licensed outlets in Ontario, only 619 sell imported products. The Quebec LCB forbids sales of imported wine and beer in supermarkets and grocery stores where most of the province's wine and beer is sold. In British Columbia imports are shut out of as many as 3,000 major outlets. While many stores will feature French or German wines prominently, American wines are usually placed in bins mixed in with wines from lesser-known importing countries. These discriminatory distribution policies primarily affect the middle to lower-priced varieties.

Wine

For each type of alcohol import product there are separate problems. American wine imports have the hardest time competing in Canada. The largest market in Canada for U.S. wines is the bulk wine market. Currently, many American wineries ship their products in bulk for bottling in Canada. This is practiced especially in Quebec, where the bottling industry is quite strong. The discriminatory practices for these American wines are much less blatant. Canadians drink two million gallons of bulk U.S. wine yearly as "Canadian" wine bottled in the provinces.

Most of the LCBs order very small shipments of U.S. wines, which limits sales and profits. Low profit levels reduce the amount of promotional spending available to U.S. wineries. Currently, any promotional efforts on the part of U.S. wineries deplete their small profits. For example, average profit margins for a case of wine is $2.25. Assuming sales in Quebec for 1987 to be 100,000 cases divided among 15 wineries, each winery would experience $14,500 in profit. Agents who handle the shipping transactions for the U.S. wineries typically take 15 percent of the profit, or approximately $2,175. Wine tastings, promotions, advertisements, and trips to U.S. wineries can easily deplete the remaining profits and can even incure additional costs. In sum, the purchasing behavior of the LCBs often force U.S. wineries to needlessly incur net costs to finance normal marketing activities.

Many U.S. wineries are angered by the discrimination they are experiencing. Currently, U.S. wineries have submitted a draft Section 301 (unfair trade practice complaint) against Canada and will proceed with a Section 301 action if the free trade talks do not eliminate current discriminatory practices.

Beer

The U.S. beer industry faces similar discriminatory action. However, while many American wineries have patiently waited for listings, major brewers such as Anheuser-Busch, Coors, and Miller are now brewing their beers on Canadian soil in order to circumvent Canadian restrictions. This shift in production from the United States to Canada has caused a loss of jobs in many areas of the Northeast-Midwest, where 45 percent of all U.S. breweries are located. Also, because of current provincial restrictions that prohibit beer produced in one province from being sold in another province, a balkanization of the beer industry has occurred in Canada. The restrictions have resulted in the creation of many small breweries in each province, thereby contributing to the Canadian industry's inefficiency, which translates into higher beer prices.

Meanwhile, Canadian beer imports to the United States have grown dramatically in the past few years. It is quite common to see Molson and Moosehead beer sold in many supermarkets and liquor stores throughout America. Unfortunately, and mainly due to the restrictions of the LCBs, the American beer industry has not seen nearly the same opportunity for growth in Canada.

PROGRESS OF LIQUOR CONTROL BOARD DISCUSSIONS

During the 1979 Tokyo Round of Multilateral Trade Negotiations, the United States pushed for a reduction in Canadian non-tariff barriers, including a reduction of discriminatory practices by the LCBs. Canadian officials agreed to prohibit any further discriminatory actions with regard to mark-ups and listings. Not only have they not fulfilled this commitment, but the discriminatory practices have worsened.

The United States and Canada have conducted several informal negotiations since 1979 to lessen trade barriers. In 1985, the USTR entered into formal bilateral negotiations in accordance with the Wine Equity Act, which was designed to improve market access in a number of countries for U.S. wines. During those negotiations, Canada agreed to reduce barriers to the level as stated in the 1979 talks and to place the LCB practices on the negotiating table during the present free trade talks.

RECOMMENDATIONS

- Canada must reduce the unfair provincial trading practices affecting U.S. alcoholic beverages. The first step to liberalizing alcohol trade with Canada is to lessen the hold that the LCBs have over imports. Steps towards this end could include standardizing the various regulations and practices of the LCBs. Such standardization would allow a U.S. company to operate under the same rules in each province.

- U.S. alcohol products deserve the same treatment accorded to imported liquor from other countries. France holds 38 percent of the entire Canadian wine market, which is a sizeable portion of the importing market. The Canadians argue that there is not a significant market for American wines in Canada. However, given equal shelf space and promotion, U.S. businesses maintain that there would be a solid market for U.S. wines in Canada.

- The United States also should request an increase in the size of wine orders. The provinces are ordering most U.S. wines in small lot quantities. Such small orders are neither conducive to developing a clientele nor to maintaining reasonable transportation costs. If the listings given to American wines are based on the size of the market (which is the case in most provinces), U.S. producers must be given a genuine opportunity to develop that market.

- U.S. wines must be distributed on a wider scale throughout Canada. Much of Quebec and British Columbia's beer and wine is sold out of grocery stores and supermarkets. The same stores are not allowed to carry imported alcohol products. By increasing the number of outlets in which importers can sell their products, the U.S. share of the market will significantly increase.

- The mark-ups in Canada on U.S. imported products must be the same as provincial domestic mark-ups in order to make it cost efficient for U.S. producers to do business in the provinces. Mark-ups on imported products in most provinces are unreasonably high and should be lowered to give American alcohol products a fair chance to compete in the Canadian market.

- Steps to remove these barriers should be given a timetable in which to take affect. If, after an agreed amount of time passes and the provinces still have not eliminated trade restrictions on alcohol imports, the United States should seek the dismantling of the LCBs. Dismantling the LCBs would put the Canadian federal government in control of trade in alcohol products. The abolishment of the LCBs would also make future negotiations and monitoring much easier.

W I N G S P R E A D
1375 Broadway, New York, NY 10018
212-921-4200

August 13, 1987

The Honorable Lloyd M. Bentsen
Chairman
Committee on Finance
United States Senate
205 Senate Dirksen Office Bldg.
Washington, D.C. 20510

Dear Chairman:

I want to strongly support the efforts of your Committee to arrive at a satisfactory agreement with the Canadian Government to remove trade barriers between our two countries.

For more than 30 years I have run large wearing apparel manufacturing companies based in the U.S. and for a number of years operated apparel manufacturing companies based in Canada. In addition, I chair the Export Policy Taskforce of the U.S. Chamber of Commerce and have been a long time Director and Past Chairman of the American Apparel Manufacturers Association.

I think there would be many advantages to firms in the wearing apparel and textile industries in the U.S., and in Canada, if we had a true U.S./Canadian Free Trade Zone. While the American apparel and textile industries have often been identified as highly protectionist, it has not been the position of these industries to seek government protection from the exports of countries that have comparable wage and living standards to those prevailing in the U.S. On the contrary, these industries have long sought to open up the free flow of two-way trade between the developed countries. This concern has special emphasis with regard to our neighbor, Canada, since the requirements of the consuming marketplace in Canada and the U.S. are quite similar. In many ways the creation of a Free Trade Zone between Canada and the U.S. would parallel the beneficial effects that were realized during the early development of the U.S. as a Federal Republic. When trade barriers between the colonies were eliminated an efficient national market became a reality.

I am confident that a true free trade agreement with Canada would benefit not only my own industry, but would have a similar beneficial effect for most manufacturing and service industries. While I am aware that there are many sectorial concerns that would have to be ironed out, I hope you share my belief that the overall benefits to be gained by this free trade arrangement would far outweigh any specific objections that might be raised.

Very truly yours,

Norman M. Hinerfeld
Chairman & CEO

NMH:rt

STATEMENT OF JOSEPH COOK
EXECUTIVE DIRECTOR
WORK GLOVE MANUFACTURERS ASSOCIATION
WASHINGTON, D.C.

In Opposition to the

PROPOSED U.S.-CANADA FREE TRADE AREA AGREEMENT

The Work Glove Manufacturers Association is made up of most of the domestic producers of work gloves, some 33 companies and 30 supplier companies. WGMA members make work gloves of textile fabrics, leather, rubber, and plastic.

The U.S. work glove industry is opposed to the establishment of a free-trade area (FTA) with Canada. Our industry has nothing whatsoever to gain from such an arrangement as it cannot help our already impaired condition; it can only worsen it. Furthermore, our industry has consistently opposed any Government proposals that would lower or eliminate tariffs on work glove imports. Like the Israel free-trade area before it, a Canada-U.S. FTA, if implemented, would establish a precedent for other such arrangements that will undoubtedly provide growing opportunities for importers to saturate our market with low-priced foreign imports. We do not need any help in this regard. Even with current tariff protection -- and on the textile glove side, bilateral restraints under the Multifiber Arrangement (MFA) -- our market is being swamped by imports. Our industry can neither sustain nor tolerate duty-free treatment on work glove imports from any country, whether it be Israel or Canada.

The Work Glove Industry Is Import Sensitive

The U.S. work glove industry has been characterized by stagnant or declining domestic shipments coincident with increasing imports and import penetration. The dramatic fall-off in production combined with the corresponding increase in imports over the last several years has meant the loss of jobs -- jobs which are often held by people who have limited skills, and, therefore, limited job alternatives. Current import penetration for our industry is in excess of 45 percent. For some categories, like leather work gloves, it is even higher -- an estimated 66 percent. Many of our products are textile products, thus under the purview of the MFA. Nevertheless, import penetration is still quite high in these textile categories.

Work gloves are import sensitive, and the U.S. Government has for the most part acknowledged this condition. Most work gloves are statutorily excluded from the GSP program because of import sensitivity. Congress also specifically excluded work gloves along with other leather-related products and textiles and apparel from duty-free treatment under the Caribbean Basin Initiative because of their import-sensitivity. The Department of Commerce has likewise recognized this import sensitivity by providing an industry-wide technical assistance grant to assist the industry in its efforts to remain competitive against imports.

Current tariff rates on work glove imports are consistent with the industry's sensitivity to imports. Tariff rates range from 3.7 to 25 percent.

Concerns About Transshipments and Dispute Settlement Mechanism

WGMA has additional concerns that under a free-trade arrangement Canada could become a "pass through" point for the Far East. Such an arrangement could not only take advantage of duty-free access to the U.S. market, but permit the circumvention of quota arrangements as well. The U.S. Customs Service already has its hands full with its regular import monitoring programs. Recent personnel cutbacks will make it impossible for Customs to guard effectively against transshipments.

Domestic work glove producers are also deeply concerned about the possible establishment of a so-called "dispute settlement mechanism" to handle trade complaints, being advanced by the Canadian FTA negotiators. This proposal would undermine our trade laws and set a terrible precedent. The proposal should be rejected.

Conclusion

We hope that the Finance Committee will consider the probable economic effect of multiple free trade arrangements on our industry. Clearly, the Agreement with Israel is a precedent for a Canadian agreement; other such FTAs will follow. The repercussions of such a policy are not limited to Israel and Canada. We are concerned that the program as currently conceived by this Administration will involve other countries, and other regions. We are alarmed by the effects that a proliferation of such arrangements would have on our industry. But even when considered by itself, Canada has the ability and capacity to increase its exports of work gloves to the United States given sufficient economic justification. Removal of duties as significant as ours can and will provide that economic incentive and thus cause further harm to our industry.

○